THE ONTARIO BUSINESS TAX

A study prepared for
The Ontario Committee on Taxation

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by WILLIAM H. MERRITT

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CHAPTER 1

Introduction

SOURCES OF INFORMATION

AS far as is known, the municipal business tax is a peculiarly Canadian form of taxation. It is found in nine out of the ten provinces, although only in four is it in widespread use. In Ontario it might be said to have reached its fullest flower, being applicable without exception to all incorporated municipalities, rural and urban.

It is not surprising, then, to find that there is a dearth of literature on the subject. There are scattered references to the tax in books and articles on taxation, but none of these are of any great value. The only work of importance was that done for the Canadian Tax Foundation almost thirteen years ago by Dr. R. M. Clark, entitled "The Municipal Business Tax in Canada". Despite the great growth in municipal expenditure since this book was written, it would appear that there has been little effort to extend the tax: in fact, relatively little of the basic factual information in the book would appear to require revision. This report uses no new historical sources that were not used by Dr. Clark, although it may view the same sources in a somewhat different way.

In studying the tax in Ontario there were available two very important sources of statistical information. First of all, there was the famous "Blue Book"—the *Annual Report of Municipal Statistics*—issued by the Department of Municipal Affairs, giving in some detail the finances of all the municipalities in Ontario. As the 1962 issue was the latest one available when this study was begun, the studies undertaken used these statistics and the municipal organization for that year as much as possible. It might be noted that the Blue Book gives only the total amount of business assessment for each municipality; it does not give the tax levied on such an assessment, the percentage of collection, or any other details. In addition to the Blue Book, however, there were made available the results and the working papers of a questionnaire sent out by the Select Committee on The Municipal Act and Related Acts to all Ontario municipalities dealing specifically with the matter of the business tax. (From 937 municipalities, 404 replies were received, 349 of which were usable.) This material was based on 1961 data. However, as there is usually little change in many of the basic characteristics of some of the statistics, it was felt possible after examination that this information could be used along with that of the 1962 Blue Book despite the disparity of one year.

It is also fortunate that, during the course of 1964, information derived from the 1961 Census became available from the Dominion Bureau of Statistics relating to the average earnings of a large number of Ontario municipalities. This, too, was used despite the disparity of one year in the data, since it was felt that there

would not be significant changes in such figures. These data, while valuable, are limited in that they do not include all income. Statistics of averages of all personal income by municipality became available only after much of the work on this study had been completed. Unfortunately they are only available for the larger municipalities.

In order to get further information this Committee sent a number of questionnaires to various business groups. This questionnaire had three purposes: to determine, first, the relative burden of the tax on various business groups; second, whether there were significant variations between the burden of the tax as it is applied in Ontario and in other provinces; and third, what the businessman himself thinks about who bears the burden of the tax. The questionnaires, for the most part, were mailed out by associations representing various business groups and the replies were mailed directly to the office of this Committee. With some businesses, personal contact was necessary in order to get the figures. By the large, the return from these questionnaires was certainly as good as one might expect, and for some business groups was much higher than is usually expected from mailed questionnaires.

In view of the large number of municipalities in Ontario and the volume of data that had to be processed, some use had to be made of data-processing equipment. The questionnaires sent out by this Committee, however, were not immediately amenable to such treatment and it was thought best to handle these by hand. It would now appear, at the point of writing this chapter, that the questionnaire information might be more revealing if the data derived from these questionnaires were to be put on punch cards and a careful study made of the variety of different sortings of the information which would thereby be possible.

A number of the associations or companies making submissions to the Committee included information which was also of use in the writing of this study, although very few backed up their recommendations or complaints with very much in the way of reliable factual information.

The reports on municipal problems and finances that have been made over the last twenty years should also be mentioned. There were, of course, the reports by Mr. H. Carl Goldenberg for British Columbia in 1947,[1] and for the City of Winnipeg in 1958.[2] In 1964, there was the Byrne Report (*The Report of the Royal Commission on Finance and Municipal Taxation in New Brunswick*) and the Michener Report (*The Report of the Manitoba Royal Commission on Local Government Organization and Finance*). The Byrne Report had relatively little to say about business taxes as such, as it was chiefly concerned with a great many other problems facing the municipalities in New Brunswick and wished to make clear the need to advise a rather radical recommendation to eliminate much of the apparent inequity. The Michener Report had some very definite recommendations to make on the matter of the business tax, although there is no immediate evidence that these recommendations were based on any careful study of the situation. In Ontario there has not been a royal commission since that of

[1]*Provincial-Municipal Relations in British Columbia.*
[2]*Report of the Commission on Municipal Taxation.*

Mr. Justice James MacLennan which reported in 1902. However, a Select Committee of the Legislature which has been studying The Municipal Act and other related Acts has made three reports, the second of which contains some discussion and a number of recommendations regarding the business tax.[3] The third report[4] added a further recommendation to the large number made in the second report.

The Municipal Structure in Ontario

Whenever one looks at the municipal structure in Ontario one cannot help being impressed by the tremendous number of local units required to conduct the affairs of this province. There were almost one thousand incorporated municipalities in 1962, including 941 cities, towns, villages, townships, and improvement districts and 38 counties. (There are actually 43 counties, five of which, fortunately, have been combined with others so that there are 38 effective units.) In addition to all this there were some 160 police villages which are semi-autonomous organizations within the various townships, and about 3,500 school boards.

As far as the municipalities are concerned one is also impressed by the great variety in the nature of the various municipalities. Not including counties, there are seven distinct types of municipalities. The type wth the largest number—the township—has been broken down by the Department of Municipal Affairs in the Blue Book into sub-groups such as suburban, semi-urban, and rural townships, but this breakdown has no legal basis. From the point of view of population, area covered, economic boundaries, and possibly many other aspects, these various municipal operations do not appear to make very much sense. Several townships have larger populations than some of the largest cities in the province; there is one town without any population whatever (Ojibway). There are villages larger than many towns and one village larger than three cities. And so one could go on. The county boundaries, having been drawn up many years ago, have little relation to present-day needs. Many of the school board boundaries do not coincide with those of the municipality.

To sum up, there would seem to be a very clear need for a rationalization of the whole municipal structure in Ontario. It raises the point that municipal business could probably be done more economically or at a much higher standard under a much simplified structure. Various people, of course, probably have quite strong vested interests in maintaining this myriad of local governments. It is possible that the provincial government has been impressed by their opinion when any suggestions to reform the present situation are raised. However, I venture to say that as far as the average voter is concerned he would have relatively little interest in maintaining the present set-up particularly if a reform might mean lower taxes or better services to him for his tax money.

This situation is germane to this study for two reasons. First of all, the very complicated municipal structure makes it extraordinarily difficult to extract the

[3]Select Committee on The Municipal Act and Related Acts, *Second Interim Report*, March 1963, pp. 5-7, and pp. 57-62.
[4]March 1964, p. 111.

essential statistical features of the present municipal situation. For example, statistical correlation techniques would be of great use in examining possible relationships between average income, tax burden, value of taxable property, etc. However, such techniques tend to be biased by the tremendous number of cases which, in total population, make up a minor portion of the total population of the province. For example, there are over 500 municipalities with populations of less than 2,000 people and there are almost 300 with populations less than 1,000. The use of a statistical technique such as correlation is unlikely to reveal "true" or proper relationship unless modified in some way. Basing calculations on the individual statistics reduced to a per-capita basis does bring some degree of comparability but it also means that each municipality is given equal weight in the statistical analysis as a decision-making body. This is obviously not true. To obviate these problems would take an extraordinary amount of time and expense.

One of the greatest difficulties is to try to segregate the various municipalities into meaningful or homogeneous groups. This can only be done, if at all, by a careful examination of each municipality. Legal classifications mean nothing. Rural townships may contain "urban" areas which may or may not be recognized as police villages. Some of the "rural" townships surrounding the larger cities appear to form a group with distinctive characteristics which are not necessarily common to all such municipalities.

All this is compounded by the sheer weight of the number of cases involved which makes the work of handling all the individual statistics difficult.

While many analyses which were done in the course of this study turned out to be inconclusive, it is quite possible that some important relationships were simply obscured because of the difficulties in handling the data. It would appear from what work has been done that there are some relationships but they are not simple ones and it is only by going over the first fruits of such work and endeavouring to put them into words that one realizes how the work should have been approached in the first place. Nevertheless, there remains a need to develop more sophisticated statistical techniques. Unfortunately it was not possible to do this; so recourse had to be made in the initial stages of the statistical analysis to an old, rather rough, and not commonly used device. This was to arrange all the municipalities in order of the size of one of the statistics, break the series into an arbitrary number of groups, average all the statistics for each of the groups, and then note whether the averages showed any significant pattern.

The other reason for making this point about the municipal structure is that by some miracle or by some astounding display of fortitude, the municipal structure of Ontario may in fact be revised one of these days. Should this happen, some of the conclusions and recommendations of this study would then not be appropriate. I have endeavoured to phrase the alternatives and recommendations in such a way as to make them applicable under a changed, as well as the present, situation.

It might be noted that two of the briefs submitted to the Committee raised the

subject of the complicated municipal structure.[5] Both contain detailed suggestions of possible reforms. Several possibilities of simplification or rationalization exist, of course, and they would affect the recommendations of this Committee in all fields of taxation. Some rationalization may well involve radical transfers of responsibility, for example, the transfer of education and some other functions to twenty or thirty regional bodies. This insertion of an intermediate level has had its value, as may be seen for example in the Metropolitan Toronto set-up. With such larger units the revenue structure could perhaps be changed to incorporate other forms of taxes, such as regional retail sales taxes.

EQUITY IN TAXATION

In many of the briefs submitted to the Committee which dealt with the business tax specifically, criticism was often based on supposed inequities in the present legislation. Appeal was frequently made to those two hoary principles of taxation; ability to pay and benefits received. The temptation to invoke either one or both of these principles in any discussion of taxes seems to be very great indeed. For my part, however, in analysing the equity of any tax or tax system I have found it very difficult to apply these principles with much satisfaction. This is not to be construed as meaning that the pursuit of equity is futile. It does mean that the matter of equity is not easily resolved, that the matter is enormously complicated and may not be easily disposed of by a superficial reference to these principles, and that there is still much work of a practical and theoretical nature to be done by economists in this field.

There are a number of reasons why the principles of ability to pay and benefits received are not adequate, but I have chosen to deal with only those points that I regard as most important and will deal with them briefly as a discussion of this nature is not the purpose of this study. First of all, both terms have been developed over a very long period of time and the meanings have been more and more refined with the passage of time. Undoubtedly this evolution will continue with attempts to make the terms more meaningful and more capable of practical application. (It may well be that these terms may actually fade from usage as newer and more appropriate terms are developed.) Unfortunately both terms are too descriptive in themselves, with the result that those who have not studied public finance are likely to interpret them in quite different ways from those who have. Both terms, but particularly ability to pay, evoke a considerable amount of emotional response. Some people express beliefs that extend the application of the particular principle

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[5]Submissions of Association of Assessing Officers of Ontario and the Ontario Division of the Canadian Manufacturers' Association.
E.g.: "It would appear that the logical solution would be to create larger taxing units. We hear down through the years so much about local autonomy but on close observation a good deal of this comes from local politicians and not from inhabitants at large. A logical set-up would be to enlarge the administrative jurisdiction of counties. Leave the cities and separate towns as they are for the present and also the present boundaries of townships, villages and towns, but give the counties more taxing authority, i.e. bring the assessments, schools, hospitals, welfare, libraries, police, fire protection, etc., all under the county set-up and the local municipality to administer their general rate only. This would be on a similar basis to the greater Toronto Metropolitan Area." Association of Assessing Officers of Ontario, p. 8.

in a most extreme form. For example, some people will maintain that all government revenues should be raised by taxes based on the principle of ability to pay. Obviously a number of taxes devised to derive moneys on the basis of ability to pay would, if they did not take account of one another, run the risk of defeating their purpose. Imposition of one tax on the basis of ability to pay diminishes the extent of ability to pay for the imposition of another tax devised on the same basis. Further, it is impossible to measure even with tolerable accuracy the true ability of a person or group of people to pay a tax. Apart from the fact that the concept of ability to pay is a subjective one, there exists the real difficulty that there is a tremendous variety of possible economic situations bearing upon ability to pay to be considered. One must also recognize that a number of the functions of the governments of Canada are undertaken directly for the benefit of certain groups and that for simple reasons of economy and control in these functions there should be some relation between the tax and the benefits.

The principle of ability to pay is based upon the subjective element of equalizing various individuals' sacrifices. By its nature, therefore, the principle is applicable only to people. It is very difficult to imagine any situations where the principle of ability to pay can apply to a tax levied on a business. In the long run, a business as such does not have any ability to pay a tax. It either shifts it forward to its customers or backward to its suppliers, or the owners pay for it out of their pockets. A business's "ability to pay" a tax, then, is a very complicated matter indeed, for a business may have a very large number of owners, customers, and suppliers, all of whom would be in different positions with respect to their ability to pay.

In many people's hands the principle of benefits received also takes a considerable beating. Pandora's box is opened as soon as one starts talking about indirect benefits. Education, for example, is often justified on the basis of "benefits received". A childless couple who have just paid their school tax are rarely heartened by the argument that other people's children will be able to be more efficient and effective citizens and will thereby lead indirectly to the growth in the productivity of the economy and the childless couple will eventually thereby benefit. The childless couple will also, no doubt, be glad to be reminded that in paying the school tax for them someone else in a previous generation also paid to educate them. This all seems to have a hollow ring about it. This is particularly so when one considers that if it is valuable to the nation as a whole to have people educated to the highest level within the means of the state to provide, then some people in some of the poorer communities are getting rather short shrift.

The benefits-received principle, if limited to more or less direct benefits, can be applied to a business. But if the benefits provided to the business do not result in some direct improvement in the economy of the business then the deficiency will be borne in the long run by a number of people who may be thus affected in a quite inequitable way. To argue that the mere existence of a community is a benefit to a business is an absurdity. *The benefit must be one created by the municipal government.*

The two principles are sometimes thought of as being mutually exclusive, yet for many of the taxes used in Canada some degree of justification can be found on

both principles. But the greatest difficulty in using either of these tests of equity is the fact that it is apparent from an examination of many of the taxes in use in Canada today that very few can be justified to any great extent on either one of these principles. Even the personal income tax, which is theoretically based on the principle of ability to pay, cannot be said to be truly on this basis since we do not know enough about the ability of various individuals to pay the tax. With the governments of Canada taking approximately one-third of the national output one is inclined to the cynical view that governments are getting their moneys where it appears to be practical and without much regard to either of these two principles. This, however, does not mean that the tax system or most individual taxes are inequitable. It simply raises the point that other concepts of equity are being applied consciously or unconsciously and that these are perhaps more relevant.

A further difficulty arises in that it is not always clear whether the principles should be applied to individual taxes, the tax system of a level of government, or the over-all tax system of a country. Theoretically, it is possible to devise a tax system that could be justified on the basis of ability to pay and yet consist of a number of individual taxes which were quite arbitrary and had no justification on either of these principles of equity. From an economist's point of view, it makes much more sense to think solely in terms of tax systems and relate individual taxes to the over-all system. However, there appears to be a general tendency to justify taxes individually rather than as a system. This may be because individual taxes have more personal impact or because they are much more easily altered. Statistically it is probably easier to evaluate a tax system as a whole since the problem can be approached by using the aggregate statistics of the economy which are more or less readily available.

It is frequently put forward that a municipal government and a provincial government, as well as a federal government, each have a tax system and that each of these systems should have an element of ability to pay in them. This idea is usually based on the observation that each level of government carries out a variety of functions and that these are best financed by such a tax system. For example, in the famous 1901 *Report of the Royal Commission on Local Taxation in Great Britain* a distinction was made between services that were preponderately national in character and generally onerous to the ratepayers, and services that were preponderately local in character and conferred upon ratepayers a direct and peculiar benefit more or less commensurate with the burden. The report noted that the distinction could not be drawn with precision but considered that a service may be considered local when a preponderate share of the benefit could be traced to people interested in the locality, while a national service had the characteristic of universality and uniformity of its administration and did not confer special benefit on a special place. Furthermore, a national service was considered one which the national government insisted on being carried out at a specified standard of efficiency. This distinction led to the conclusion that onerous expenditures should be financed by taxes based on "ability to pay", while beneficial expenditures should be based on taxes more or less related to "benefits received".

In Canadian studies of municipal finance, distinctions have been made between

expenditures at the municipal level that benefit property owners, and expenditures that benefit people but not necessarily property owners. (Some people state this distinction as between expenditures that benefit property and those that benefit people. This is certainly not the same thing.) It is possible, and it has been done in various reports on municipal problems in Canada, to distribute expenditures at the local municipal level between those that could be considered to be of benefit to the owners of property and those that would fall into the category of being services to persons. While such a split may lead to the view that the expenditures of benefit to the owners of property should best be financed by the present property tax, thereby making its justification more clearly on the grounds of benefits received, it does not follow that the other expenditures should necessarily be financed by taxation based on ability to pay. Nevertheless, a case can be made that some of the responsibilities of municipalities in Canada today cannot be financed appropriately by tax sources which are, or could be, available to the municipalities.

A simpler solution is either to remove the responsibility from the municipality and move it to a level of government that could finance it by a more appropriate tax or to charge the municipality only for the administration and execution of the services, with the expenses being borne by a different level of government. This, of course, would presume in turn that the higher levels of government would consider their own services on the same basis and reach some agreement with the federal government as to their financing.

All this sounds like a great deal of work involving a great deal of political risk in order to pursue a principle that I imagine might not have wide popular appeal. Nevertheless, some of the responsibilities of our municipal governments should be shifted, if not to the provincial level then to some intermediate level to be established. Probably a better principle to go by would be for the local municipalities to be responsible only for those functions that are of direct benefit to real property owners. The financial requirements of the municipalities then might well be reduced and come easily within the range of what can be adequately provided for by the present real estate tax. This shifts the problem of administering and financing the remaining function presently borne by the municipalities to the provincial level where it can perhaps be handled more adequately and more equitably. Thus, in the long run, there undoubtedly would be considerable advantages, not the least of which might be restoring to taxpayers some definite association between their taxes and the benefits derived from the governmental service.

If the use of the principle of ability to pay is restricted to perhaps only the income tax and if, on the other hand, the use of the principle of benefits received is restricted to taxes which are related more or less to the direct benefits which accrue over a reasonable period of time, then quite an area of public finance remains for which there is no guiding principle. The sad fact is that very few, if any, of the taxes in Canada—or perhaps, for that matter, in any country in the world—come anywhere near meeting the requirements of either of the two "basic" principles of taxation. This raises the question of whether in fact the principles are worth while at all or whether one should perhaps go back to the old starting-point of Adam Smith. Certainly there has been considerable improvement in taxes in terms of

Smith's maxims of convenience, certainty, and economy in collection, and indeed with many of the variations on these maxims and additions to them that have been made over the years. Perhaps equity should be considered from quite a different point of view. For those services which render a more or less direct benefit to taxpayers, and where it is possible to employ a reasonable and economic tax to pay for this benefit which is roughly proportionate to the benefit received, then that should be the end of the matter. Certainly as far as ability to pay taxes is concerned this should be restricted largely to the income tax,[6] and this will be influenced as much by the level and direction of the activity of the national economy as by the need for revenue. For the great area in between — those services which benefit people directly but for which no reasonable tax can be found to allocate the cost, or for those services whose benefit is less capable of being traced to individuals in particular places or to people at particular times — then several taxes should be employed differing in nature but reasonably broad in scope but which in total would be *proportional* to the means to pay them. This proportionality may be obtained by exemptions for persons with low means, or by some form of flat bonus or even perhaps by some variation on Dr. Milton Friedman's suggestion of a negative income taxation as a substitute for welfare payments. Under these circumstances, equality in taxation takes on a quite different form and to my mind a more relevant form. *The central principle is that of equity, and by that is meant that any taxpayer paying a particular tax will, if similarly placed as to another taxpayer, pay the same amount of tax.*

[6]Succession duties or estate taxes are possible taxes which could be justified on ability to pay. The mere existence of capital involves some justification for proportional taxation on the basis of equality of sacrifice but care must be taken that in conjunction with the income tax the compounding of taxation does not lead to inequity.

CHAPTER 2

The Municipal Business Tax—A Description

Definition of the Tax

THE municipal business tax is a reasonably well-known tax in Canada, being applied by all the municipalities in Ontario and Saskatchewan and most of the larger municipalities in the other provinces. The tax, however, is not amenable to a simple definition applicable to all cases where used in Canada. The term "business tax" may be said to mean a tax applied by a municipality on the *occupier* of real property while it is being used for the carrying on of a business. The basis, or means of calculating the tax, cannot be easily included in the definition, as a number of bases are currently in use and several others could conceivably be used. At the present time three relatively simple bases are used: the assessed value of the real property for ordinary municipal real property taxes, the annual rental value as assessed by the municipality, and the area of the business premises. Since the tax is levied on the occupier of the property, it does not constitute a lien on the real estate.

While not forming a specific definition of the business tax, some other characteristics may be noted. First of all, a business tax may or may not differentiate between types of business. That is to say, while still maintaining a single common basis for the tax the rates for various businesses may vary, often to a considerable extent. Where the area of the business premises is used, as it is in the province of Saskatchewan, such classification is a necessity in order to get any semblance of equity in the tax. Another characteristic of the tax stems from the simple fact that the municipalities are the creatures of the provinces and the business tax, while a municipally collected tax, may only be collected by the municipality on the basis of provincial legislation.[1] Provincial legislation may vary in many ways as to the applicability of such a tax. In some provinces only certain specified municipalities are permitted to apply such a tax; in other provinces all municipalities are given permission to apply the tax. In Ontario all municipalities without exception are required to apply the tax.

The exemptions applying to real property usually apply in the case of the business tax although if in part of the exempt property a recognized business is being carried on—particularly if it is in competition with similar businesses in the community (such as lunch counters) — these are often made subject to the tax or there is great pressure to make them so. Special exemptions for certain businesses are also given but these vary depending on local municipal and provincial situations.

[1]It is true that some cities may use the business tax because it is allowed for in their charters. In almost all cases these charters may be changed unilaterally by the provincial government concerned.

In many ways the tax takes the same form as the common real estate or property tax in that it begins with an evaluation of some economic aspect of the taxpayer which is then followed by a tax bill calculated by the application of a rate to the evaluation. This rate may vary along with the rates on the property tax (which is automatic if the basis of the tax is the same as the real property tax), or it may remain static for years, or it may be established at a specific level by the provincial authority. The taxes are calculated on an annual basis and were frequently payable in a lump sum. It is now much more common for them to be paid in instalments over the course of the year. In essence the tax is a tax on *what was,* rather than *what is.* Nevertheless there should not be any confusion in that the tax is on the *occupier*, not the *owner*, of the property and should the business operate for only a portion of the year the tax is usually applicable only for that portion of the year.

Probably one of the most interesting aspects of the business tax is its name. There are many taxes which are imposed exclusively on business which are certainly not called business taxes. The business tax, so called, which is not related particularly closely to either the gross receipts, the profits or the assets, either gross or net, of a business, would not seem to be a particularly descriptive name. Its only claim to the name is that it is applied to businesses only. The question may well then be raised, what is a "business"?

DEFINITION OF BUSINESS FOR PURPOSES OF THE BUSINESS TAX

It is somewhat surprising to find that in all the provincial Acts and city charters there are few even reasonably explicit (although they are obviously legally adequate) definitions of what constitutes a business.

For example in Vancouver and Victoria "business" is simply defined, following the provincial Act, as including any trade, profession or other occupation. This definition is given somewhat more focus by providing a schedule of exemptions which lists a number of people, agencies, or occupations who would not be subject to the business tax.

In the case of the city of Halifax a somewhat more precise explanation is given by defining the occupation of the occupier of the business premises as a "trade, profession or other calling if carried on for the purposes of gain". In the province of Quebec, cities and towns, excluding those with charters, are empowered to levy taxes "on all categories or classes of trades, manufacturers, financial or commercial establishments, occupations, acts, professions, callings or means of earning a profit or a livelihood carried on or followed by one or more persons, firms or corporations in the municipality, or, at the discretion of the council, on any one or more of the said categories or classes, a tax ruled a business tax. . . ." In Montreal, the by-law also associates the carrying on of a business or an art or a profession as a means of livelihood or gain.

In Ontario the problem of defining business is handled by so defining business assessment (Section 9, Subsection 1) as to make it applicable to any person occupying or using land for the purpose of, or in connection with, any business mentioned or described in the Act (in particular, Sections 9 to 13). Even so, while Section 9 is reasonably detailed it still falls far short of specifying all the businesses which I am

sure are assessed for business tax purposes in Ontario. Section 9(1) (n) would appear to be the catch-all—"or any business not specially mentioned before in this section". But this leaves the matter open as to what is specifically a business. For example, are billboards subject to business tax? Apparently some municipalities consider them so while others do not.

I am unaware of any legal disputes that may have arisen over the matter of defining business for business tax purposes as it applies in Ontario. I believe the reason for this is simply that the business tax does not rely on its being a tax on business as such but a tax on businesses that occupy premises.

In all the provinces where the tax is used, there are, of course, a number of businesses that one way or another escape business tax assessment even though they occupy premises. This may be partly because the businesses are carried on sporadically or in such a fashion that the place occupied for the business is really nothing more than a mailing address. It is not difficult to imagine a large number of cases where bona-fide businesses are being carried on and are to all intents and purposes outside the scope of the business tax — for example, door-to-door vendors whose main piece of equipment consists of a truck or a vacuum cleaner. There may also be a number of borderline cases where persons ordinarily employed by large organizations carry on side lines from a residential location. Whether these cases constitute evasion or loopholes in the law depends on the legislation of the particular province or municipality. I have uncovered no disputes on this matter.

To the economist the definition of the word "business" may have a much broader meaning than it has in common usage or in law. Any person, including a day labourer, is gainfully employed and may be considered to be in business. Of course, this is not to be construed that the residential property of a day labourer should be subject to business tax, since the tax is defined as a tax on the properties occupied for the purpose of carrying on the business.

Suffice it to say in summing up, the term business tax is a misnomer of considerable advantage to the less scrupulous voter or politician who can make it appear that the government is taking a whack at business and ignore the fact that the tax may well be passed on to the public at large. In all fairness it should be more properly described as a tax on premises used for the carrying on of business or perhaps more briefly a "business premises tax".

Business Tax as Distinguished from Business Licences

The business tax may be distinguished in several ways from the more common system of licensing businesses. Usually a licence is a specific amount for each particular type of business. Often there is no variation in the fee and such variation in rates as may occur usually occurs in discrete jumps. Licences are usually related to some aspect of the business which the municipality is interested in controlling or to some specific task that the municipality may supply such as inspection. The general attitude towards licensing is probably that of control or a charge for a specific service rendered or received rather than as a source of revenue. It is sometimes stated that licence revenues frequently fail to cover the costs to the municipality of providing the services. On the other hand some municipalities have used licences in lieu

of a recourse to a business tax in order to obtain more revenues. In passing, it might be noted that in British Columbia licences are allowed to be abated from the business tax. Impressions gained from communications with the assessors of three of the larger western cities suggest that they would prefer to abolish this practice and have a lower rate of business tax.

UNIQUENESS OF THE BUSINESS TAX IN CANADA

It is of interest to note that the business tax as we know it in Canada has not developed to any great extent in the United States.[2] This may be due to the much greater dependence there on taxes on personal property. In turn this may be abetted by the long history in that country of having a capital gains tax and the means being available for making assessments and checking them. In some states there is said to be some degree of co-operation between municipal governments applying personal property taxes, and the state and federal governments in their interest on capital gains and estate taxes.

[2]See also R. M. Clark, "The Municipal Business Tax in Canada", Canadian Tax Paper No. 5, p. 1. The nearest approach to the business tax in the United States is probably the occupancy tax in New York City "on persons renting business premises for gainful purposes", but this tax is an insignificant source of income for that city.

CHAPTER 3

A General History of the Business Tax

Quebec

THE business tax as it is presently known was introduced in Montreal in the latter part of the nineteenth century. In 1876 the city was given the right to levy a tax on the annual rental value of premises occupied for business purposes. In 1887 this right was given to Quebec City, in 1892 to Sherbrooke and in 1895 to Ste. Hyacinthe. It is suggested by Solomon Vineberg[1] that these steps were taken because of opposition to the introduction of a personal property tax.

At the present time the business tax situation in Quebec can be described as follows. The business tax is based on annual rental values. The cities and towns would appear to be subject to a maximum business tax of 10 per cent or an absolute amount of $5,000. In smaller municipalities the maximum is $100. In Montreal, where the business tax forms part of the city charter, no restriction is stipulated. It is believed that other cities in Quebec, such as Quebec City and Verdun, may also have such special disposition in their charters.[2]

Manitoba

Winnipeg was the first city outside Quebec to introduce a business tax. It was introduced in 1893 purportedly because of a breakdown in the personal property tax and the need for revenue. Brandon was given the right to levy such a tax in 1900, and in 1906 this permission was extended to all incorporated towns and villages in the province. In Winnipeg there was at first some difference of opinion on the proper basis of the tax to be used: area or annual rental value. Wholesalers were said to prefer annual rental value; retailers, area occupied classified as to the nature of the business. A compromise that was arranged failed, and in 1907 the basis became solely annual rental value.

Prior to 1935, the tax was levied at a uniform rate in all municipalities using the tax, but in that year Winnipeg introduced a system of classification of businesses with rates ranging from 5 to 15 per cent. In 1938 the range was changed to 6 to 20 per cent.

The Winnipeg tax is classified in a very complicated manner. Not only are there different rates for different businesses but there are also different rates for different sizes of the same assessment.

In 1958, Mr. H. Carl Goldenberg in his *Report of the Commission on Municipal Taxation* for the City of Winnipeg reviewed the business tax as applied and recommended mainly that the classifications and the applicable rates be simplified.

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[1]*Provincial and Local Taxation in Canada*, pp. 37-8.

[2]Letter from Mr. C. R. Godin, City Assessor, City of Montreal.

In 1964, however, the report by the Hon. R. Michener recommended the abolition of the classification; that the tax be made compulsory for all municipalities; that it be based on a portion of the assessed value of the premises rather than on annual rental value and that municipalities would be free within a range of 30 to 45 per cent to choose an appropriate rate to apply to the property assessment to obtain the business assessment.

Ontario

The history of the introduction of the business tax in Ontario is more complicated and some aspects remain obscure. It dates back to dissatisfaction with the application of the personal property tax and income taxes particularly in the latter half of the last century.

The business tax as it is applied in Ontario is of course quite closely related to the property tax, and the history of the business tax is inextricably wrapped up with the history of the property tax whether on real or personal property. Certainly in the early days the property tax provided the main financial basis of all local government. There would appear, however, to be no clear distinction, at least for tax purposes, between real property as we now know it, personal property as it has come to be known, and income. It is not the intention of this study to go into the history of Ontario municipal taxes at this point, but a few points might be stated in order to provide the proper framework for an understanding of the present business tax.

The first relevant Act seems to be The Assessment Act of 1793, which established in very general terms those items of property which could be taxed. This Act classified all ratepayers into eight groups according to the total value of their property. This system of classification was abolished by the Act of 1803 and, for the first time, a clear distinction was made between real and personal property, by making a specific enumeration of the times that constituted personal property.

In those days the municipal governments were concerned with many of the services that they provide today, with the unusual exception of education. It would appear that education, to the extent to which it was provided by the public purse, came from the provincial treasury, and it was not until 1841 that sums necessary for the erection of schools were permitted to be raised by the taxation of property.

Local government in Ontario as we now know it may be said to begin with the Baldwin Act of 1849 when the powers to assess property taxes were transferred to the various municipal councils. In 1850, The Assessment Act specified real property and a narrow range of personal property as being assessable for municipal purposes with the proviso that all forms of taxable property were to be levied equally and that the municipal assessor was given the right to make his own valuation rather than accept that of the ratepayer.

In 1853 The Assessment Act was superseded by another which embraced all forms of property both real and personal as liable to taxation and added the proviso that income from a trade, profession or calling exceeding $50 was to be assessed as personal property, except where other forms of personal property exceeded it in

value. This last provision was extended in 1866 so that the general property tax would include income as well as personal and real property.

Almost from the beginning the basis of the general property tax was eroded by various exemptions for reasons of public policy or to avoid double taxation, possible or presumed. This, together with a general reluctance and laziness on the part of the assessors and wholesale evasion by ratepayers, soon reduced the general property tax to a limited property tax but limited in a rather inequitable way, particularly in view of the fact that in the meantime new forms of wealth had appeared. Urban real property, inventories of merchants, both retailers and wholesalers, and the income of wage earners and salaried employees apparently came to bear the preponderant share of municipal taxation.

For rural municipalities where the demands for municipal services had increased only moderately, the tax, based mainly on real property, was probably not too inequitable. In any case the rates were low and thus any inequities were likely to be low also. In the urban areas the story was quite different; the demands were greater and the need for adequate revenue sources was very great. By the end of the nineteenth century it was obvious that the whole system of local taxation was under considerable strain.

In 1888 the first of two commissions was appointed to collect information on municipal government in Canada and other countries.[3] The commissioners noted that there was flagrant evasion of the personal property tax in Ontario and raised the question whether a more suitable substitute for the tax could be found.[4] In this connection they mentioned, but did not recommend, the business tax being levied in Montreal and Quebec City.

In 1890 Ontario municipalities were given the option of imposing on mercantile concerns either the personal property tax or a business tax based on the annual rental value of the premises occupied for business purposes. The annual value of the premises was to be taken at 7 per cent of the assessment for property tax purposes. The business tax rate was not to exceed 7½ per cent of this annual value. Within these limits municipal councils were to be free to classify different types of business and to impose different rates on each class. Until 1904, when The Assessment Act of that year required Ontario municipalities to impose a business tax, no municipality availed itself of the opportunity granted in this Act of 1890.

In 1900 the Ontario government appointed a royal commission (which came to be known as the MacLennan Commission) with broad scope to investigate municipal taxation and to recommend amendments. In 1902 the commission published its reports. Generally speaking, it restated the comments of the earlier Commission on Municipal Institutions. In its recommendations it called for, among other things, the abolition of the personal property tax because of its administrative defects. (In

[3]*First Report of the Commission on Municipal Institutions*, Ontario Sessional Papers No. 42, 1888, p. 3 and *Second Report of the Commission on Municipal Institutions*, Ontario Sessional Papers No. 13, 1889, pp. 191-2 and 195.

[4]For example, in the 1888 report the Commission on Municipal Institutions remarked, "the valuation of personal property varies so much as almost to prove *prima facie* that this cannot be an equitable basis of taxation."

actual practice this had become a tax on the estimated capital of merchants.) In its place they recommended a house tax and business tax to be used in conjunction with the municipal income tax which had been levied in Ontario for more than half a century. The house tax was to be levied on the occupants of dwellings in the cities, towns and villages, the basis of assessment to be the annual rental value of houses after allowing an exemption which increased as the population of the municipality increased. The tax was to be levied at the rate of 5 per cent of the rental value. The business tax was to be levied at a flat rate on the annual rental value of the premises occupied for business purposes. The rental value was defined as a sum equal to 7 per cent of the assessed actual value.

The Commission suggested taxing income in the following manner: a) all persons should be taxed on their income; b) persons whose income was derived from trade, manufacture, financial or commercial business should be taxed by reference to the rental value of the premises they occupied instead of directly upon their income; c) for persons following other callings income should be exempt up to $1,000, and for income between $1,000 and $4,000 they should be taxed according to the rental value of the premises; and d) for income over $4,000 a tax according to rental was to apply up to $4,000 and directly on the income in excess of $4,000.

In essence this meant that in cities, towns and villages every person in commercial or financial business excepting private bankers and brokers and every other person whose income was not more than $4,000 would be taxed on the rental value of the business premises and their local residences. Persons whose callings were neither commercial nor financial and who had incomes of more than $4,000 would be taxed on the rental value of their houses and places of business and on their income in excess of $4,000.

The Commissioners were apparently well aware of the advantages of an income tax but were realistic in their appraisal of the administrative difficulties standing in the way of a general extension of such a tax. At the same time they were attracted by the advantages of the municipal business tax as it was then being levied in Montreal. In comparison with the personal property tax they noted that the business tax had a number of advantages. It was easy to administer. There were no inquisitional features. Fraud and evasion of the tax were difficult, if not impossible. The municipality had the certainty of a definite and stable revenue. Finally, it was believed that it would have the tendency to foster commercial enterprise and encourage industry and ability.

The Commissioners also felt that the business tax could be taken as an indirect method of gauging incomes for certain occupational groups, but they considered that the tax would clearly fall with undue lightness upon some persons enjoying very large incomes from personal property and they felt that people in these categories should be subject to an income tax.[5]

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[5]As income was considered part of the municipal assessment, the application of a standard rate made the tax on income *proportional* in so far as it was taxed at all.

These recommendations look unusually complicated, although the Commission considered them a happy balance between the ideals of ability to pay and benefits received. It is not surprising that The Assessment Act of 1904 which followed the recommendations of the Select Committee of the Legislature did not accept these suggestions. This Committee replaced the personal property tax by a business tax to be levied at the general local rate on assessments computed by applying varying percentages to the real property assessments according to the type of business. The rationale for the particular percentages for the particular businesses was given by the Select Committee in the following words.

> The business assessment . . . has been so graded and persons subject to it so classified that the assessment under it, when made, will, it is hoped, relatively, if not actually, represent amounts which might be assessed against each person if they had been arrived at by an actual inspection and valuation of the personal property of the person, and "business assessment" may, therefore, be regarded as a satisfactory substitute for the assessment of personal property.

It is presumed that a study was made of the situation at that time, but it is highly unlikely that it would have withstood the more sophisticated examination it may well have received today.

The evidence collected for the purpose of establishing the business tax classification may well have been influenced by the fact that there was supposed to be at that time extensive evasion of personal property assessment. Thus we are not sure whether the classification is based on what was in fact taking place or what should have been if the old tax laws had been applied properly. In any case it is hard to believe that the extraordinarily high rate of 150 per cent on distillers reflected the personal property assessment liability of distillers at that time. One may also be somewhat suspicious of the 75 per cent rate which was applied to most financial institutions in view of the general distrust that people have had—and probably always will have—of such institutions. On the other hand one must remember that the business tax classification reflected an assessment which included not only personal property but income and the high rates for distillers and financial institutions may have been valid in view of this evidence.

A municipal income tax was continued (on a non-progressive basis) but remained a relatively unimportant source of revenue for most municipalities. The legislation permitting it was finally repealed in the mid-1930's.

ALBERTA AND SASKATCHEWAN

The history of the business tax in other parts of the country may be briefly outlined as follows. In 1904 the City of Edmonton, while still a part of the Northwest Territories, was advancing from the status of a town to a city and was authorized to levy a business tax with reference to the area occupied for business purposes. In 1906, when Regina and Saskatoon were incorporated, provision was made in their respective charters for a business tax similar to that established for the City of Edmonton. In 1908 the Saskatchewan legislature extended the pro-

visions dealing with this tax to all the cities and towns of the provinces (The City Act and The Town Act).

Between 1912 and 1917 the City of Edmonton experimented with a single tax system which consisted of taxing land exclusive of improvements. After five years the impracticability of this became apparent and in 1918, in order to broaden the tax base again, the business tax was reimposed, this time, however, on the basis of annual rental value. In Calgary meanwhile an attempt was made to tax personal property and the city met with the same sad experience that other Canadian municipalities have had with this type of tax. In 1916, therefore, the tax was replaced with a business tax on the annual rental value basis.

Generally speaking, the early experience in Alberta was that the excessive taxation of unimproved land had led to a virtual breakdown in the finances of the various municipalities and recourse to the business tax was made in order to re-establish financial soundness. Over the course of the next few years the right to levy the same type of business tax was extended to other cities.

At the present time there are two assessment statutes, The City Act and The Assessment Act, the latter applying to all municipalities other than cities. The main difference between the two Acts as far as the business tax is concerned is that while The City Act allows the tax to be based only on the annual rental value of the premises occupied, The Assessment Act allows not only the rental value as a basis but also the area of the premises occupied. In the smaller towns and villages, apparently, the area method is used, and since there is little evidence of any kind available to establish on any reasonable basis what the classification ought to be, it is admitted that the assessment rates in various towns must be very arbitrary and have probably been established over a period of time by arbitration following appeals. Further, these municipalities would not be large enough to suffer from the inequity of applying standard rates in different parts of the municipalities. On the other hand, an annual rental basis might involve too much work and more assessment talent than the municipalities possess.

At present all Saskatchewan municipalities must levy a business tax on all businesses except the owners of special franchises who in lieu of the business tax pay tax on their plant and machinery and equipment that is associated with the special franchise. Railways are subject to the business tax whether they are subject to the general property tax or not.

The basis of the tax is still that of area with the following maxima:

(1) $10 per square foot for all businesses except banks, loan companies and other financial institutions and $15 for these businesses.

(2) $4 per square foot of yard space wholly or partly outside of the building. Apart from these upper limits the municipalities are free to set their own rates on a classified basis.

Grain elevators are subject to a special form of the tax which varies by the volume and type of locality.

The minimum tax is $15 and no person paying the business tax is liable to a licence fee in respect to the business except for certain businesses such as contractors and cleaners, who are required to pay the higher of the two—the licence or the business tax. Strangely enough, any of the business taxes may be deemed a licence fee by any municipality but there is no change in basis—only a change of name.

In 1964, The City Act was amended to make it permissive for cities to assess businesses on a rental basis. The maximum rate is 25 per cent. To date, only Saskatoon has availed itself of this opportunity, but its new by-law did not come into effect until March 31, 1965. (The rate set was 10 per cent.) Public halls, music academies, taxi cabs, boat liveries, driving training, and catering do not pay taxes under this new system.

The Maritimes

The business tax was introduced in the Maritime provinces somewhat more recently. A business tax was authorized for the City of Halifax in 1921 based on a percentage of the assessment for property taxation. In New Brunswick, a business tax was authorized for the cities of Saint John in 1936 and Fredericton in 1943. Here again the reason for the change to a business tax arose from administrative difficulties encountered with the use of the personal property tax, coupled with a need for greater revenue. In 1942, in Moncton, a rental tax was adopted. This tax was levied on both residential and commercial property. For owner-occupied premises rental value was assumed to be 10 per cent of the property assessment. The application of this tax to residential property was abolished in 1956 and on commercial properties in 1963.[6]

The recently published Byrne Report[7] recommends for New Brunswick the abolition of the personal property taxes, poll taxes, and present business taxes used in the province, and their replacement with a business tax applicable to all businesses throughout the province at the fixed rate of 1½ per cent of the real property value assessed at market values. In cities and towns, the business tax would be ½ per cent more, and in the "new" municipalities proposed in the new municipal organization, a business tax could be applied up to a maximum of ½ per cent.

In 1951 a business tax was introduced in St. John's, Newfoundland, to replace a stock tax which was previously levied on businessmen's inventories. Here again the change was made largely because of a serious need for greater revenue. No other municipality in Newfoundland imposes a business tax.

British Columbia

In British Columbia, following a royal commission headed by Mr. H. Carl Goldenberg, legislation was implemented permitting municipalities to impose a

[6]Letter from Mr. J. A. Clarke, Supervisor of Assessments, City of Moncton.

[7]*Report of the Royal Commission on Finance and Municipal Taxation in New Brunswick, 1963.*

business tax assessed with reference to annual rental values. The various municipalities were allowed the privilege of classifying businesses under such an arrangement, but none have done so.

Only the cities of Vancouver, Victoria, New Westminster, and Prince Rupert, and the District of Kitimat impose the tax. Two reasons may be given for this, one that the business tax is administratively more complicated than the ordinary licensing method of obtaining revenue, and second, there is a general reluctance on the part of some councils to impose extra taxes on a business community that is mainly commercial.

There is a further complication in British Columbia in that licences, which businesses pay in addition to the business tax, are allowed as an abatement against the business tax payable.

It might also be noted that in British Columbia there are some twelve municipalities that impose the general mill rate on what is known locally as the landlord and tenant machinery and equipment. These items have been for general tax purposes classed as improvements and made subject to the general mill rate. The municipalities using this tax are those that have a heavy concentration of industry. As this tax obviously bears more heavily on industrial businesses than on commercial businesses, it is obviously much more politically palatable than the business tax.

This legislation has now been changed, however, and beginning January 1, 1965, in its place the business tax provisions have been expanded to take in the landlord and tenant machinery and equipment (which for convenience has been called personal property) so that the business tax will now be imposed on rental values and this personal property, and the taxpayer will then pay whichever is the greater. In other words, industrial firms will continue to pay on machinery but commercial firms will probably pay on a rental basis. The amendments furthermore put in certain limits—the limit on the rate of rental is 10 per cent, and on personal property 1 per cent. However, within these limits the various councils may classify and set varying rates according to the class of business. It is expected by the government that the municipalities will not move to the substitute form of business tax, and the result would be to shift some of the tax burden from the industrial to commercial businesses or even to the taxpayers at large.

A SUMMARY OF BUSINESS TAXES APPLICABLE IN CANADA

Before going on, it might be valuable to summarize at this point the business taxes applicable in Ontario and in other parts of Canada. It might be noted that the introduction of the business tax usually arose from the need to broaden the tax basis of the municipality in order that it might meet the responsibilities which it felt were incumbent upon it to meet, but there was often a history of an attempt to use the personal property tax and of administrative difficulties encountered with it.

In order to tackle in a somewhat orderly fashion the various comparisons which may be made of the business taxes presently employed in Canada, I have chosen to single out certain specific characteristics and summarize them in tables.

First, there is the matter of application. By this is meant, does the provincial legislation apply to only specifically named municipalities or to all municipalities, and if the latter, is the legislation obligatory or permissive? The situation as it stands at the present time may be seen in the following table:

TABLE 3:1

APPLICABILITY

Province	*Applies to all Municipalities*		*Applies only to Specific Municipalities*	*Applies to Specific Groups of Municipalities on Permissive Basis*
	Obligatory	*Permissive*		
Ontario	x			
British Columbia		x		
Alberta				
Cities		x		
Other municipalities		x		
Saskatchewan	x			
Manitoba			x	
Quebec				x
Nova Scotia			x	
New Brunswick			x	
Newfoundland			x	
Manitoba (as proposed in the Michener Report)	x			
New Brunswick (as proposed in the Byrne Report)	x			

The second topic is the basis for the assessment of the tax. This is given in the following table together with information as to whether the assessments are classified by type of business.

TABLE 3:2

Basis of the Tax

Province	*Annual Rental Value*		*Proportion of Real Property Assessment*		*Area of Premises**	*Turnover in Previous year**
	classified	*unclassified*	*classified*	*unclassified*	*classified*	*classified*
Ontario						
Telephone and telegraph companies						x†
All other			x†			
British Columbia		x‡				
Alberta						
Edmonton	x					
Other cities		x				
Other municipalities					x§	
Saskatchewan		x¶			x	
Manitoba						
Winnipeg	x					
Other cities		x				
Quebec		x				
New Brunswick						
Saint John				x		x**
Fredericton			x			
Nova Scotia						
Halifax				x††		
Newfoundland	x					
Manitoba (as proposed in the Michener report)				x		
New Brunswick (as proposed in the Byrne report)				x		

*By nature, this basis must be classified if it applies to more than one business.
†Classification also by size of municipality in some cases.
‡Classification is permitted.
§Annual rental value may be used.
¶Optional for all cities beginning 1964.
**Wholesalers and retailers.
††Business assessment is 50% of property assessment except for those properties assessed at less than $2,000 for which rate is 25%.

Note: Except in Ontario and Saint John, N.B. the classification can be modified by the municipalities concerned.

Finally there is the matter of whether the tax rate is fixed by the Province or, if it is variable, whether there are any limits imposed. Furthermore, there is the matter of whether the rates are classified as to the size of the business.

TABLE 3:3

TAX RATE

Province	*Fixed*	*Variable*		*Classified as to size of Business*
		Limited	*Not Limited*	
Ontario			x	No
British Columbia			x	No
Alberta			x	No
Saskatchewan		x		No
Manitoba—Winnipeg				Yes
—Other cities				No
Quebec—Montreal and some cities			x	No
—Other cities and towns		x		No
Nova Scotia			x	No
New Brunswick			x	No
Newfoundland			x	No
Manitoba (as proposed in the Michener Report)			x	No
New Brunswick (as proposed in the Byrne Report)	x			No

CHAPTER 4

A Brief Description of the Ontario Business Tax

General Description of the Tax

THE business tax as we know it in Ontario today stems from The Assessment Act of 1904. The legislation does not define the business tax as such but states that a "business assessment" will be made based on the ordinary assessment of real property and that the tax on the business assessment will be payable by the occupier of the business premises and will not constitute a lien on the property. This means that the municipal tax rate applying to the real property assessment will be applicable to the business assessment as well. In the original Act the business assessment was outlined in Section 10; in the revised Act of 1960 this has become Section 9. In order to avoid confusion the most recent section numbers are used in this study.

The legislation pertaining to business assessment presently covers Sections 9 to 13 of The Assessment Act; Section 9 dealing with businesses other than that of operating telegraphs and telephones; the remaining sections deal almost exclusively with these businesses.

As was mentioned above in a brief discussion of what was meant by "business" for business tax purposes, the Act, in effect, defines it by specification:

> every person occupying or using land for the purpose of, or in connection with, any business mentioned or described in this Section (Section 9) shall be assessed for a sum to be called "business assessment" to be computed by reference to the assessed value of the land as occupied or used by him as follows:

There follow fourteen subsections, the first of which has fourteen sub-subsections.

Business assessment under Section 9 is calculated by simply applying a percentage stated in the subsection which is applicable to the particular business. The percentages vary from a minimum of 10 to a maximum of 150 per cent. The percentages may also vary according to the size or type of the municipality; for example, retail merchants in cities with populations of 50,000 and over bear rates of 25 per cent while those cities and towns of populations of 10,000 and over have a rate of 30 per cent. The applicable percentages are given for the most part in subsection 1 of Section 9. Some businesses are cited specifically; for most others a general category is provided. Those business premises which would appear not to be covered elsewhere in the section are covered by subsection 9(1)(n). It may also be noted that in Section 9(14),

> Where general words are used for the purpose of including any business that is not expressly mentioned, such general words shall be construed as including any business not expressly mentioned, whether or not such business is of the same kind as or of a different kind from those expressly mentioned.

A minimum assessment of $100 is provided in subsection 8.

In many of the subsections of Section 9, clarification is provided for awkward cases, for example where a business is carried on in more than one form involving the application of different rates. Thus, manufacturers (assessed at the 60 per cent rate) who undertake wholesaling (assessed at the 75 per cent rate) are assessed for their whole business at the 60 per cent rate. But subsections 2 to 14 are also used, strangely enough, to cover businesses that might just as easily be listed under subsection 1, for example, car parks, and clubs serving meals.

In summary, and in essence, the business tax in Ontario is applicable to the business assessment which in turn is determined from the basic assessment of real property. Thus, in fact, it may be looked upon as a device for arbitrarily increasing the assessment of business property. Once this is achieved the tax tends to lose much of its identity. In fact it is possible that, to many municipal officials, as well as to any business proprietors who own their own property, the two taxes are simply one and the same thing. This should be kept in mind when considering such other subjects as the split mill rate[1] and the possibility of over assessing the value of business property as against residential property. That is to say, by means of the business tax, and the split mill rate, together with the great likelihood that business property is assessed more highly with respect to its market value than residential property, an appreciable proportion of the tax burden has been made more or less indirect and not obvious to the average voter or municipal taxpayer. Thus, should one undertake to study the effect of municipal taxes on the competitive position of Ontario business, all three of these factors must be considered as being present and tending to reinforce one another.

A brief outline of the rate classification for business assessment purposes applicable to Ontario businesses is outlined in Appendix A.

TELEGRAPH AND TELEPHONE BUSINESSES

Besides all that has been described above, telegraph and telephone companies operating in Ontario are singled out for additional assessment. While telegraph and telephone companies are subject to a business assessment of 25 per cent on their land and buildings excluding "machinery, plant or appliances erected or placed upon, in, over, under or affixed to such land" (Section 9(1)(k)(i)), they are subject also to an assessment on their circuits (lines) in townships at specific rates per mile set out in the statute and on their gross receipts in cities, town, villages and police villages.

As far as telephone companies are concerned, in cities with populations in excess of 100,000, they are assessed on the basis of 75 per cent of their gross receipts during the previous calendar year and in other cities, towns, villages and police villages at the rate of 60 per cent of their gross receipts. Similarly telegraph companies are assessed on gross receipts at the rate of 50 per cent. The telephone and telegraph companies are expected to provide the information on gross receipts

[1]The split mill rate resulted from the introduction in 1957 of provincial grants to municipalities which were to be used solely to reduce the taxes on residential property. Business property now bears a heavier rate than residential property, the extent of the difference depending upon the amount of business property assessment.

and circuits to each municipality where this legislation makes them liable to assessment.

The legislation concerning this assessment of telegraph and telephone companies seems curious in two respects. In subsections (6) and (9) the land of such companies on which a building is erected is stated to be liable for assessment. This would seem redundant in that there are no exemptions mentioned earlier in the Act. In fact, Section 9(1)(k)(i) specifically states that such companies are subject to business assessment. Again, in subsection (13), machinery, plant, and equipment in cities, towns, villages, and police villages is stated as being exempt although a very slight change in the general exemption in Section 4(17) would appear to accomplish the same thing.

Early in 1964 the Bell Telephone Company and the two major railway telegraph companies were approached with respect to whether they wished to make any representation to this Committee. It was pointed out to them that the legislation in Ontario dealt with telegraph and telephone companies in a discriminatory way in the sense that no other business was singled out for such treatment. It was also pointed out that since their business tax assessments were on the basis of previous year's gross receipts this tended to make their assessments more current than assessments based on property valuations. Nevertheless they were reluctant to make a formal reply or submission on this subject. Apparently they feared that any alternative to the present legislation would put them in a worse position. They did mention, however, that the fact that the tax is payable to each municipality meant they were put to a considerable degree of trouble in paying the tax. The Bell Telephone Company expressed the concern, verbally, that the system resulted in some over-assessment, as in the case of a long-distance call involving other telephone companies, part of the gross receipts were payable to the other companies.

Exemptions

As far as exemptions are concerned, in view of the fact that the business assessment is based on the property tax assessment, all exemptions noted for the real property tax carry over to the business assessment; for example, property owned and operated by educational, charitable, scientific, and literary institutions. In particular, however, the following should be noted:

> All machinery and equipment used for manufacturing or farming purposes, including the foundations on which they rest, *but not including* machinery and equipment to the extent that it is used, intended or required for lighting, heating or other building purposes or for producing power for sale, or machinery owned, operated *or* used by a transportation system or by a person having the right, authority or permission to construct, maintain or operate within Ontario in, under, above, on or through any highway, lane or other public communication, public place or public water, any structure or other thing, for the purposes of a bridge or transportation system, or for the purpose of conducting steam, heat, water, gas, oil, electricity or any property, substance or product capable of transportation, transmission or conveyance for the supply of water, light, heat, power or other service. (Section 4 (17))

There are some exceptions to this where a business is operated by an otherwise exempt organization. Within the business assessment portion of the Act itself, however, there are, apart from the whole system of classification, relatively few complete or 100 per cent exemptions. In various cities in Canada, a number of trades are exempt, such as taxi cab operators, private detectives, chimney sweeps, and pedlars in Vancouver.

The major exemption in Section 9 of the Act is that contained in subsection (11):

> No person occupying or using land as a rooming house, farm, market garden, nursery or for the keeping of bees for the production of honey, or for the raising of animals for the production of fur is liable to business assessment in respect of such land.
>
> (a) In this subsection "rooming house" means any house or building or portion thereof in which the proprietor resides and occupies at least 10% of the floor space as his residence, and supplies for hire or gain to other persons lodging with or without meals in rooms furnished by the proprietor with necessary furnishings and does not include an hotel or apartment house.

The next exemption of importance is subsection (2).

> Where any person who is the owner or tenant of land sets aside an area of land for the exclusive use of his employees for parking their motor vehicles while at work and no charge is made for such parking privileges, such person is not liable for business assessment on land actually used for such purpose.

The third exemption is found in subsection (12).

> No subordinate lodge of any registered friendly society and no officer thereof is liable to any business assessment in respect of any business of such subordinate lodge.

Pipe lines for the transmission of gas and designated as such by the Ontario Energy Board are exempt from business assessment (Section 41(1)(c) and (11)) as well as "any property on, over, under or affixed to a highway, lane, or other public means of communication used for the supplying of water, heat, light and power to municipalities and their inhabitants as well as transportation systems and pipe lines not regarded as transmission pipe lines".

In Section 46(5) of The Assessment Act, railways assessed under the manner outlined in that section are exempted from business assessment. This exemption was incorporated in the original Assessment Act of 1904 when the present principles of assessing businesses were adopted. It apparently arose from an increase in the provincial mileage tax under the Revenue Act. Apparently members of the government and representatives of the railway companies at that time conferred and an understanding was reached that the railway companies would not oppose the heavy increase in mileage tax and the government would restrict the taxing powers of the municipalities with respect to railways by exempting them from the business assessment. In 1906, track and some railway buildings were also exempted and the benefit from the increased mileage tax was given to the municipalities. (This was later repealed in 1952.)

CHANGES IN THE LEGISLATION SINCE 1904

Since 1904 the business assessment portion of The Assessment Act has changed little. While a few changes have come and gone, the following lists the differences between the original Assessment Act of 1904 and The Assessment Act in the Revised Statutes of 1960.

(a) Originally, no special assessment rate was given distillers distilling alcohol for industrial purposes. Now a sum based on 60 per cent of the assessed value is allowed. (Section 9(1)(a))

(b) "Loaning land corporation" has been added to the 75 per cent of assessment category. (Section 9(1)(c))

(c) Chain stores consisting of five or more shops in Ontario including warehouses, offices, etc. were made subject to a 75 per cent rate. (Section 9(1)(d))

(d) Manufacturers were made not liable for that portion of their business which might be described as wholesaling and thus subject to the 75 per cent rate. Section 9(1)(e))

(e) Added to the list of properties subject to the 50 per cent assessment in the original Act are the following occupations: contractor, builder, advertising agent, private detective, employment agent, accountant, assignee, auditor, osteopath, chiropractor, massagist. (Section 9(1)(g))

(f) There has been added a 35 per cent rate on radio and television broadcasting and the publishing of newspapers carried on in cities and 25 per cent in other municipalities. (Section 9(1)(h))

(g) Flour millers producing less than fifty barrels a day are subject to only a 35 per cent rate instead of 60 per cent, as an ordinary manufacturer. (Section 9(1)(j))

(h) The transmission of crude oil has been defined more specifically but has been left at the same rate (25 per cent). However, pipe lines designated by the Ontario Energy Board as a "transmission pipeline" are now exempt if taxed as under Section 41 of the Act. (Section 9(1)(l))

(i) For supervised car parks a category has been added bearing a rate of 10 per cent.

(j) Land owned by businesses which is used for parking privileges is made exempt from business taxation (Section 9(2))

(k) In order to clear up a situation where manufacturers are involved in the transportation of goods such as crude oil, the business involved in the transportation is not subject to assessment as a manufacturer but presumably as a transporter of such a product. (Section 9(3))

(l) Clubs in which meals are furnished are subject to a taxation of 25 per cent of the property used for the purposes of the club. (Section 9(4))

(m) Where a manufacturer also carries on the business of a retail merchant that portion of his business may be assessed at retail rates. (Section 9(6))

(n) The business of carrying on a public garage is put in the same category as that of a supervised car park for that portion of his business which is used for the parking of cars. (Section 9(7))

(o) The minimum assessment of the 1904 Act was $250 but it is now set at $100. (Section 9(8))

(p) In subsection 10 of the present Act a financial or commercial business is defined so as to exclude a business carried on by operating steamboats, sailing or other vessels or other forms of transportation. Originally this section

of the Act also included businesses which might best be described as being those of a broker, financial agent, or a manufacturer's agent. (Section 9(10))

(q) In subsection 11 which deals with exemptions, rooming houses, bee keeping and fur farms have been added. In addition, the present Act defines a rooming house as a building in which the proprietor resides or occupies at least 10 per cent of the floor space and supplies to persons lodging in the building the necessary furnishings with or without meals for hire or gain. (Section 9(11))

(r) The subordinate lodge of any registered friendly society is made exempt from business assessment. (Section 9(12))

(s) Finally, a section of the original Act which exempted people from the municipal business tax provided they paid business tax has been dropped from the present Act in view of the withdrawal of the municipal income tax legislation during the 1930's.

As one might expect, many of the changes in the legislation deal with the changes that have taken place over the course of time due to changes in the type of businesses. This may be seen in item (f) above where it was necessary to add a section dealing with radio and television broadcasting and in section (e) where the addition of a number of occupations was required.

But there were also some changes, notably (d) (k) (m) and (n), where some need was felt to exempt businesses from the full impact of subsection (5) of Section 9 which stated that a person carrying on more than one kind of business as mentioned in Section 9(1) should be assessed for the whole of his business at the rate applicable to the chief or preponderant type of business carried on on the premises.

It might also be noted that the great increase in the car population has brought about the addition of three changes which in effect result in very low rates on property provided for the parking of automobiles. It would be very difficult, without a rather careful study of this subject, to assess whether this discrimination is basically justified. On the one hand the municipality has an interest in having parking space provided in order to reduce some of its own liability in this respect. In the case of those lots that are being operated on empty land being held for speculation or for later development it is obvious that a low rate for the business assessment at least gains for the city some tax revenue which it would not otherwise get at all if a higher rate prevailed. This position can be argued quite strongly on the grounds that the major expenses in operating a parking lot are the rent or interest on the investment in the land and the property and business taxes on that land. A relatively high rate of business tax might make a very considerable difference in the net receipts and thus result in their being closed down. Arguing from a historical basis, in view of the fact that the tax was a substitute for the old personal property and income tax, a low rate would be indicated as a parking lot involves no personal property.

A General Summary of the Ontario Business Tax

When one goes over the early fiscal history of Ontario municipalities and reads the comments of the various Commissions, The Assessment Act of 1904 takes on quite a different appearance than it has at first reading. While no doubt

it marked a turning-point and established a number of new principles, it also attempted to maintain a strong link with the past.

Obviously the legislation when it was introduced would have to provide the municipalities with revenues roughly equivalent to what they had been getting, or better. At the same time, the burden of local taxation should not be shifted too greatly from one person's shoulder to another.

The personal property tax was abolished although an income tax (on a proportional basis) remained. However, a business tax was to replace the former and perhaps also the latter. The classification of the business assessment was undoubtedly influenced by the contemporary burdens the various businesses were paying in the way of the old personal property tax and the income tax.

The taxation of machinery posed a problem. It was certainly liable for assessment under the old legislation. But it was obvious that if machinery were to be excluded entirely from the assessment basis then some businesses would come off very lightly indeed. Thus machinery involved in the provision of various services such as the production of power and the transportation of goods, electricity, heat, etc. was maintained as assessable. The special nature of the tax on telephone and telegraph companies, particularly the use of gross receipts, suggests that it was an attempt to deal with industries which at that time had higher ratios of income to capital than other industries providing services based on large investments in capital.

The fact that railways came to be dealt with in a different way does not detract from this thesis. The fact that provincial mileage taxes were increased about the same time and the proceeds turned over to the municipalities helps to bear this out. Why the government chose this type of solution is not known, although it is possible that in view of the fact that railways usually have a low ratio of gross income to capital employed a very low classification rate might have had to be applied for a business assessment. As railways were considered by the public at that time to be very well off, a low rate in the classification system may well have been politically impossible. It is possible that many rural municipalities would benefit quite enough from the tax on the railway property without lightening their financial burden still further by allowing them to apply a business assessment as well. It is also possible that the railways obtained their particular treatment through the exercise of some form of political pressure. In any case, if the old provincial mileage tax is looked upon as a substitute for the business assessment, since the former has now disappeared, it may be said that the railways and farming are the two main businesses exempt from the business tax.

The legislation governing the business tax for municipalities in Ontario has a number of peculiarities which, taken together, make the legislation seem remarkably arbitrary in this age of accenting individual freedom of expression. For example, the tax is not merely available to all municipalities but is obligatory. This is not true of any other province except Saskatchewan. Furthermore, no variation in the basis of the tax is allowed. It must be applied to an assessment established as a proportion of real property assessment, the proportions being detailed and not subject to municipal variation. The tax is classified in a quite arbitrary fashion, basically according to the type of business; only a few minor

variations are allowed to reflect the size and types of some municipalities. The municipalities may not vary the classification. The business tax bill is sent out separately from the real property tax bill and is sent to the occupier of the business premises as he is liable for its payment. (The failure to pay business tax does not constitute a lien on the property.) Finally, the tax rate applicable to the business assessment is the same as that applicable to real business property. In fact, in the calculation of the tax rate the business assessment forms simply part of the total assessment.

In other words, a municipality in Ontario has relatively little power to control the revenue it obtains from its municipal business tax. To all intents and purposes the business tax assessment may be regarded simply as an addition to the real property assessment roll. There is no doubt that it is an economical tax for the municipality to impose. It is a simple, standardized method of arbitrarily increasing the burden of the municipal taxes which have to be borne by business property owners. Apart from the need to send out separate assessment notices and tax bills the municipal officials may hardly be aware that there is such a thing as a business tax. In the case of any business that owns its own property, the distinction between the property tax as such and the business tax may not be regarded as significant. They may well be lumped together and paid and recorded in their books of account as simply "municipal taxes".

This extraordinary degree of standardization has its advantages. First of all it precludes one form of competition between municipalities in attracting and maintaining various types of businesses. The calculation and administration is remarkably simple. This is of advantage not only to the municipality but also to many businesses in view of the fact that they can establish their liability for all municipal taxes quite easily. In general the system has worked reasonably smoothly for over half a century and there are remarkably few cases of friction between business people and municipal people on this account. Furthermore, the tax has been in effect for so long that many of the short-run effects of the burden of the tax will have worked themselves out and the economy adjusted itself to the burden.

This is not to be construed as meaning that the tax is justified as it stands. A number of criticisms can and have been raised. These are discussed later. Suffice it to say at this point the criticism to be made is first of all whether the tax is equitable—that is, whether it treats business people similarly situated in an equitable manner; second, whether it unduly restricts the various municipalities so that their economic growth is inhibited; and finally, whether the tax as it is presently constituted and applied leads to the optimum allocation of our economic resources.

CHAPTER 5

The Significance of the Business Tax to Ontario Municipalities

THE SIZE OF THE BUSINESS TAX

FOR many years the Province of Ontario has published in its *Annual Report of Municipal Statistics* many of the financial statistics of all the municipalities in Ontario. It is a peculiarity of this volume that while revenues from various sources are given, the revenue from the business tax as such is not separated from that of the property tax. The total amount of assessment is given, however, with a number of breakdowns. While the total taxable assessment and the business assessment are given, it is again peculiar that the real property assessment is split solely into land and buildings and no subsidiary breakdown into residential and business real property assessment is provided.

In 1962, the total taxable assessment of all local municipalities was $10,571 million and the business assessment was $1,201 million, or 11.2 per cent. If this percentage be applied to the total taxation revenue less local improvements (a total of $676 million) it would appear that the yield of the business tax would be in the neighbourhood of $75 million. However, in 1957, the provincial government saw fit to introduce a system of making grants to municipalities on a per-capita basis in such a manner as to relieve the burden of taxes on residential property only (the so-called split mill rate). Thus the assumption that the business assessment bore approximately the same tax rate as the total taxable assessment is not tenable. (It was, of course, only approximate anyway because of the differences in rates for separate and public schools supporters.) If a somewhat more sophisticated approximation is attempted by taking into account the per-capita grants to the benefit of residential property owners, it would then appear that the business tax for 1962 totalled approximately $80 million.

One should not be confused by assuming that this is the total of all municipal taxes paid by all businesses. Since it would appear that the business assessment represents about 46 per cent[1] of the total real property assessment on business, it would seem that the total property tax paid by business in Ontario would be in the neighbourhood of $175 million. This would not include taxes on railways, pipe lines, telephone and telegraph businesses, which are not subject to the business tax as outlined in Section 9 of The Assessment Act. The real property and business tax paid by businesses in 1962 would appear then to amount to about 40 per cent of the total municipal levy on all real property and business. (In addition to taxation in this form, businesses in Ontario paid approximately $8 million in licences and permits as well.)

[1]Calculated from material prepared for the Select Committee on The Municipal Act and Related Acts, by Mrs. H. G. Rowan, April 1962.

THE RELATIVE IMPORTANCE OF THE BUSINESS ASSESSMENT TO VARIOUS ONTARIO MUNICIPALITIES

Table 5: 1 sets out the relationship of the business assessment to the total taxable assessment for a number of classes of municipalities in Ontario. In addition to the simple arithmetic average for each group, a median for the ratios within each group has also been supplied along with the highest and lowest ratios in order to give some impression of the range and the importance of the business assessment. For all municipalities the arithmetic average of the ratio of the business assessment to the total taxable assessment is 11.2 per cent. However, the median is only 3.0 per cent. This difference is due to the tremendous number of small rural municipalities with relatively small business assessments. As may be seen, the individual ratios vary from 40.7 per cent to zero. The highest average ratios are to be found in the cities and towns; the villages and townships have distinctly lower averages, whether arithmetic or medial.

The extreme variation in the extent to which the business assessment forms a part of the total assessment can be seen in a somewhat more summary form in Table 5: 2. Only 148 out of the 941 municipalities or 15.8 per cent had business assessment in excess of 10 per cent of their total taxable assessment. At the other end of the scale there were 21 municipalities without any business assessment whatsoever.

As was mentioned in Chapter 1 of this study, a study prepared for the Select Committee on The Municipal Act and Related Acts by Mrs. H. G. Rowan was made available which provided a great deal of insight into where the business tax burden lay as far as the average municipality was concerned. This study was based on the replies from 348 of the 941 Ontario municipalities. Table 5: 3, which is derived from these data, gives a distribution of the business tax by rate classification for various types of Ontario municipalities. The breakdown is given first on the basis of assessments and then on the basis of the tax levied. I cannot explain the differences in the breakdowns to my complete satisfaction. It may be due to the simple fact that some of the municipalities are not levying taxes in conformity with the Act.[2] It may be seen that four categories of the tax classification account for almost all of the business tax levied.

The 60 per cent category, which consists entirely of manufacturing concerns (but not all manufacturing concerns since some types of manufacturing receive differentially high or low rate treatment), accounts for just under one half of the total amount levied (43.3 per cent). The second most important category is the 25 per cent category, which includes, for the most part, retail merchants in cities of 50,000 or over, telegraph, telephone companies, etc., and a miscellany of businesses such as photographers, theatres, restaurants, hotels. The third most impor-

[2]See *Second Interim Report* of the Select Committee on The Municipal Act and Related Acts, March 1963, p. 57: "Several briefs have mentioned the diversity of the rates applied and one containing statistics covering a 54 per cent sample of the member firms listed 17 rates ranging from less than 10 per cent to over 60 per cent. Many of the percentages listed do not conform to the provisions of the Act. Also some of the statistics supplied in response to a questionnaire sent to all municipalities gave an indication that the rates stated in the legislation are not being applied in all instances." (I have not checked the extent of this as far as these questionnaires are concerned.)

tant category is the 50 per cent category, which in general is made up of professional people or persons working in a "service" field. The fourth most important

TABLE 5:1

BUSINESS TAX AS PROPORTION OF TOTAL ASSESSMENT

Type of Municipality	*Number of Municipalities*	*Arithmetic Average*	*Median*	*Highest*	*Lowest*
1) Metropolitan Toronto	13	12.6	8.8	24.9	2.1
2) Cities	30	13.1	13.3	19.2	7.9
3) Separated Towns	7	8.2	10.5	17.3	2.1
4) Towns in Counties					
Over 5,000 pop.	41	10.3	10.5	19.0	4.8
Under 5,000 pop.	58	10.2	8.9	26.0	3.8
Towns in Districts					
Over 5,000 pop.	8	16.3	17.7	23.7	9.2
Under 5,000 pop.	39	13.6	8.2	30.9	1.0
Total	153	10.9	9.6	30.9	1.0
5) Villages in Counties					
Over 5,000 pop.	1	6.9	6.9	6.9	6.9
Under 5,000 pop.	143	8.5	6.9	40.7	0.2
Villages in Districts					
Under 5,000 pop.	11	6.7	3.1	11.4	0.0
Total	155	8.3	6.8	40.7	0.0
6) Townships in Counties					
Population over 5,000					
Suburban	15	8.8	5.6	20.5	2.0
Semi-urban	28	4.1	2.2	14.8	0.7
Rural	14	3.2	1.3	14.6	0.6
Townships in Districts					
Population over 5,000					
Suburban	5	5.4	4.3	8.3	2.5
Semi-urban	4	6.3	5.3	9.7	2.1
Rural	4	5.5	1.3	9.0	1.1
Townships in Counties					
Population under 5,000					
Suburban	2	5.7	7.8	12.5	3.0
Semi-urban	10	5.4	2.5	18.6	0.5
Rural	352	2.0	1.1	31.6	0.0
Townships in Districts					
Population under 5,000					
Semi-urban	4	15.5	7.7	20.6	2.9
Rural	132	4.4	1.6	23.9	0.0
Total Townships	570	4.4	1.4	31.6	0.0
Improvement Districts	19	14.6	4.4	31.3	0.0
Total, All Municipalities	941	11.2	3.0	40.7	0.0

Source: Department of Municipal Affairs, *Annual Report of Municipal Statistics, 1962.*

TABLE 5:2

BUSINESS ASSESSMENT AS PERCENTAGE OF TOTAL TAXABLE ASSESSMENT

Percentage Category	*Number*	*Percentage of total*	*Percentage category*	*Number*	*Percentage of total*
Over 25%	8	0.8	4.0 – 4.9%	50	5.3
20.0 – 24.9	10	1.1	3.0 – 3.9	58	6.2
15.0 – 19.9	25	2.7	2.0 – 2.9	96	10.2
10.0 – 14.9	105	11.2	1.0 – 1.9	156	16.5
7.5 – 9.9	105	11.2	0.1 – 0.9	195	20.7
5.0 – 7.4	112	11.9	0	21	2.2
Sub-total....	365	38.9%	Total.......	941	100.0%

TABLE 5:3

DISTRIBUTION OF BUSINESS TAX BY RATE CLASSIFICATION FOR VARIOUS TYPES OF MANUFACTURING

Basis of Calculation of Business Assessment	*Metropolitan Toronto*	*Cities*	*Separated Towns*	*Towns*	*Villages*	*Townships*	*Improvement Districts*	*Total*
	BASED ON ASSESSMENTS							
Minimum $100..	*	0.1	0.1	0.2	0.7	0.4	*	0.1
10%..........	0.3	0.1	—	*	0.1	*	—	0.2
50% of 30%....	0.2	0.3	0.4	0.5	0.6	0.2	—	0.2
25%..........	19.5	18.7	7.6	12.0	23.2	14.9	7.9	18.3
30%..........	0.4	4.8	20.3	5.7	0.1	0.2	*	2.4
35%..........	0.7	0.5	5.6	9.7	21.7	10.0	5.9	1.9
50%..........	18.2	15.8	5.7	9.8	11.8	6.9	5.0	16.1
60%..........	38.5	47.1	54.9	54.8	36.7	59.4	78.3	43.9
75%..........	21.6	11.2	5.4	5.7	4.2	3.2	2.9	15.8
150%.........	0.6	1.4	—	1.5	—	4.4	—	1.1
Other..........	*	—	—	0.1	0.9	0.4	—	*
Total..........	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	BASED ON TAX LEVIED							
Minimum $100..	*	0.1	0.1	0.2	0.8	0.4	0.1	0.1
10%..........	0.4	0.1	—	*	0.1	*	—	0.2
50% of 30%....	0.2	0.3	0.4	0.5	0.6	0.2	—	0.2
25%..........	19.7	18.9	7.5	12.9	22.5	14.4	10.3	18.5
30%..........	0.4	5.1	20.5	5.6	0.2	0.2	0.1	2.6
35%..........	0.7	0.5	5.4	10.9	23.7	10.0	7.8	2.1
50%..........	18.4	15.7	5.2	10.0	10.6	7.5	6.9	16.1
60%..........	37.9	46.8	55.5	52.2	35.9	58.2	70.9	43.3
75%..........	21.8	10.9	5.4	6.1	4.5	3.6	3.9	15.7
150%.........	0.5	1.6	—	1.5	—	4.8	—	1.1
Other..........	*	—	—	0.1	1.1	0.7	—	0.1
Total..........	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* less than .05%

Source: Calculated from a report prepared for the Select Committee on The Municipal Act and Related Acts, April 1962 (Sample of 348 municipalities).

category is made up for the most part of companies which may be described as being in the field of finance, but also includes chain stores and wholesale merchants and brewers.

In the same table the same information is given for various types of municipalities in Ontario, and while there is considerable variation it is remarkable that in each of the categories the 60 per cent rate group produces the largest amount of revenue. As one might expect, Metropolitan Toronto has proportionately more in the categories of financial institutions, professional offices, and retail stores than any of the other types of municipalities, and this has the effect of reducing the over-all proportion of manufacturing.

The minimum $100 category turns out on closer examination to be a rather interesting one. For those municipalities for which figures could be calculated (225) the arithmetic average of the business tax rate is 47.8 per cent of the property tax. The highest figure is 700 per cent; the lowest, 1.2 per cent. The median is 38.2 per cent, the 1st and 3rd quartiles are 54.6 per cent and 25.0 per cent respectively. One municipality had no other classification than the minimum (Carling Township).

Table 5: 4 gives the average business tax rates for various types of municipalities. The results show surprisingly little variation between types of municipalities except that villages would appear to be below the over-all average. These figures of course are not to be construed as meaning that townships, for example, having the highest percentages, are the best off, and that villages are the worst off. For the most part, the townships are rural and have relatively few business assessments. The villages, on the other hand, have almost twice the proportion of total business assessment. The figure for the townships simply means that for

TABLE 5:4

AVERAGE BUSINESS TAX ASSESSMENT RATE

Based on Actual Assessment	*Metropolitan Toronto*	*Cities*	*Separated towns*	*Towns*	*Villages*	*Townships*	*Improvement Districts*	*Total*
	%	%	%	%	%	%	%	%
Arithmetic Mean	46.6	45.1	46.8	46.0	38.0	46.9	51.7	46.1
Median rate	47.6	44.5	45.6	42.7	33.9	33.0	34.7	35.8
Highest rate	59.4	51.5	51.8	95.3	56.7	81.6	58.8	95.3
Lowest rate	37.6	33.1	37.9	20.9	5.5	6.0	23.9	5.5
Based on Business Tax Assessment	46.4	45.2	44.0	45.8	39.2	47.0	51.9	46.0
*Based on Tax Levied**	46.1	45.0	44.1	45.1	39.0	47.7	49.7	45.7

*Calculated by applying the percentage in each rate class group to the classification value of the group.

Source: Calculated from a report prepared for the Select Committee on The Municipal Act and Related Acts, April 1962 (Sample of 348 municipalities.)

what business properties they do have the effect of the present classification system is to increase their importance to the assessment tax base by 47.7 per cent. Furthermore, the classification of "townships" here includes many suburban or semi-urban townships whose business property takes the form of satellite factories while the lower rated retail and professional businesses are located in the city to which they are suburbs.

Table 5:4 gives the average business tax assessment rate on a number of bases. First of all, it has been calculated by relating the actual business assessment to the actual assessment of business lands and buildings. Total figures were given in the questionnaire for both the amount of the business tax assessment and the total assessment of business property subject to the business tax. In addition to this, two other figures have been supplied. The first is based on the actual business tax assessment and the second on the actual business tax levied. Both these sets of figures were broken down by rate category; thus an average business tax assessment rate could be calculated by applying the percentages in each rate class group to the classification value of the group.

Strictly speaking these figures (all being arithmetic means) should be practically the same. I am not able at this point to explain to my complete satisfaction the variations in the average rates depending upon the particular base chosen. However, differences between rates calculated from the amount of the total business property assessment in each of the categories and the amount of the business assessment may be due to the fact that the occupiers were assessed for only portions of the year. Differences between the average rate calculated from the actual business tax levied by category and that calculated from the actual business assessment by rate category may be due to the situation as noted in footnote 2 of this chapter. The amount of difference due to this could be determined by going over each of the questionnaires. The work involved was not considered worth while.

For those average business tax assessment rates calculated on the basis of the actual assessment there were also readily available from Mrs. Rowan's report the median, high, and low rates for each of these groups of municipalities. As far as the total of all municipalities is concerned there is a tremendous spread, from 5.5 per cent to 95.3 per cent. The least degree of variation is found in Metropolitan Toronto, the other cities in the province, and the separated towns.

The questionnaire sent out by the Department of Municipal Affairs also asked the municipalities to give the number of assessed properties in the various rate classifications. This is given in Table 5:5.

As may be seen, of all the properties assessed for business tax almost half were in the 25 per cent category. This category includes most small retail stores in the larger cities. The next most important category was the 50 per cent category, which consists for the most part of professional people or self-employed people selling services rather than goods.

As has already been noted, when you turn to the proportions of the business tax levied, 43 per cent is in the 60 per cent category, which consists entirely of manufacturers. In fact, manufacturers, including distillers in the 150 per cent and

TABLE 5:5

COMPARISON OF NUMBER OF PROPERTIES ASSESSED FOR BUSINESS TAX AND BUSINESS TAX LEVIED

Applicable Business Tax Assessment Rate	*Percentage Breakdown of Number of Assessed Properties*			*Percentage Breakdown of Business Tax Levied*		
		Cumulative			*Cumulative*	
	Percentage	*Upwards*	*Downwards*	*Percentage*	*Upwards*	*Downwards*
Minimum $100.....	5.1	100.0	5.1	0.1	100.0	0.1
10%.............	0.5	94.0	5.6	0.2	99.9	0.3
50% of 30%.......	2.2	94.4	7.8	0.2	99.7	0.5
25%.............	46.4	92.2	54.2	18.5	99.5	19.0
30%.............	6.4	45.8	60.6	2.6	81.0	21.6
35%.............	7.1	39.4	67.7	2.1	78.4	23.7
50%.............	18.9	32.3	86.6	16.1	76.3	39.8
60%.............	7.9	13.4	94.5	43.3	60.2	83.1
75%.............	5.5	5.5	100.0	15.7	16.9	98.8
150%............	—	—	100.0	1.1	1.2	99.9
Other............	—	—	100.0	0.1	0.1	100.0
Total............	100.0	—	—	100.0	—	—

Source: Calculated from a report prepared for the Select Committee on The Municipal Act and Related Acts, April 1962. (Sample of 348 municipalities.)

60 per cent classes and brewers in the 75 per cent class as well as various financial businesses, and wholesale trades which make up the 75 per cent category account for 60 per cent of the total business tax levied. In other words, 13.4 per cent of the number of businesses are paying 60.2 per cent of the total tax levied.

It is interesting to note that in the brief report prepared by Mrs. Rowan for the Select Committee on The Municipal Act and Related Acts, this situation was given a quite different framework. This may be seen in the following table, with accompanying comments, which is taken from this report.

The inference would appear to be that were the Province to alter the tax to a flat rate, then for every business that might benefit, two other businesses might suffer.

Appendix B gives, for the major types of municipalities in the province, the range in the number of businesses and business tax assessments broken down into the various rate categories. A quick glance over these tables will show the extent of variation that there is even among reasonably homogeneous municipalities such as the cities. In number of assessments the median city has 6.2 per cent of its assessments in the minimum category. The lowest city, however, has 0.1 per cent and the highest 18.0 per cent. In the 25 per cent category, which consists largely of retail stores, the spread is from a low of 15.1 per cent in one city to 59.8 per cent in another. There is a similar range as far as the breakdown of taxable assessment is concerned. In the case of manufacturing, which is the most important source of the business tax, the median city has 34 per cent of its business tax assessment in this category. At the same time, one city had only 7 per cent and another, 61 per cent.

TABLE 5:6

NUMBER OF ASSESSMENTS BELOW AND ABOVE THE MEDIAN OF THE AVERAGE PERCENTAGE USED AS THE BASIS OF CALCULATION OF THE BUSINESS ASSESSMENT 1961

Classification	Median	Number of Assessments		Percentage of Assessments	
		Below	Above	Below	Above
	%			%	%
Metropolitan Toronto	47.6	27,543	17,443	61.2	38.8
Cities	44.5	26,136	13,150	66.5	33.5
Separated Towns	45.6	1,228	329	78.9	21.1
Towns	42.7	11,808	4,244	73.6	26.4
Villages	33.9	1,783	1,387	56.2	43.8
Townships	33.0	6,656	5,300	55.7	44.3
Improvement Districts	34.7	193	215	47.3	52.7
Total	—	75,347	42,068	64.2	35.8
Total All Municipalities	35.8	79,474	37,941	67.7	32.3

Calculation of business assessment in 1961 at the median of the average percentages applicable to each type of municipality would have resulted in an increase in 75,347 assessments (64.2%) and a decrease in 42,068 (35.8%). Application of the median of the average percentages applicable to all types of municipalities would have increased 79,474 assessments (67.7%) and decreased 37,941 (32.3%).

A COMPARISON OF THE RELATIVE DEPENDENCE OF VARIOUS CITIES IN CANADA ON THE REAL PROPERTY AND THE BUSINESS TAX

In Table 5: 7 figures are given for a number of cities in Canada showing the per-capita burden of the tax on residential real property and business real property, and the business tax. In addition, a percentage breakdown between these three sources of revenue is also given.

It should be noted that while the taxes on residential properties for some of these cities outside Ontario were calculated on a precise basis by the city concerned, some of them were estimates provided by the city concerned based upon the proportion of residential assessment to the total assessment. I am informed that these figures are not precise in view of the fact that the average mill rate would vary because of separate and public schools and a number of other factors. For Ontario the taxes on residential property have also been estimated, using the data available from Mrs. Rowan's study referred to above. Strictly speaking the burden on the Ontario cities should be reduced by the amount of the per-capita unconditional grant by the provincial government, which would vary for the municipalities shown from $2.00 to $3.00 per capita. The Ontario figures also suffer from the fact that they are estimated from the assessment and therefore do not take into account any variation from the average mill rate due to differences in public and separate school rates or any other variations in the rates which the municipality may have. (Some municipalities have different rates for areas that are considered to have fewer services, e.g. lack of sewers.) The choice of Ontario cities was governed simply by taking those centres for which there was sufficient information available to calculate the figures. They are arranged in descending order of assessed population.

TABLE 5:7

COMPARISON OF THE BURDEN OF RESIDENTIAL AND BUSINESS PROPERTY TAXES AND BUSINESS TAX FOR VARIOUS CANADIAN CITIES, 1962

Municipality	*1961 Population (thousands)*	*Taxes on Residential Property*		*Taxes on Business Property*		*Business Tax*		*Total*	
		Per capita	*Percentage*	*Per capita*	*Percentage*	*Per capita*	*Percentage*	*Per capita*	*Percentage*
Vancouver	385	$55.33	46.1	$56.64	47.2	$ 8.09	6.7	$120.06	100.0
Victoria	55	47.49	44.2	53.38	49.7	6.54	6.1	107.41	100.0
Calgary	250	68.61	58.3	35.94	30.6	13.08	11.1	117.63	100.0
Edmonton	281	55.33	57.6	31.85	33.2	8.79	9.2	95.97	100.0
Lethbridge	35	65.06	60.8	33.52	31.3	8.47	7.9	107.05	100.0
Regina	112	56.08	52.7	37.39	35.1	12.98	12.2	106.45	100.0
Saskatoon	96	52.92	58.6	28.62	31.7	8.75	9.7	90.29	100.0
Moose Jaw	33	53.85	56.2	31.81	33.2	10.10	10.6	95.76	100.0
Halifax	93	43.32	41.3	43.08	41.1	18.45	17.6	104.85	100.0
Metropolitan Toronto	1,619	$92.31	59.0	$43.81	28.0	$20.42	13.0	$156.54	100.0
Toronto	672	85.26	44.2	74.35	38.5	33.46	17.3	193.07	100.0
Hamilton	274	76.68	55.5	43.30	30.8	20.65	14.7	140.63	100.0
Ottawa	268	80.54	68.0	26.57	22.4	11.34	9.6	118.45	100.0
Windsor	114	61.61	49.2	42.93	34.3	20.73	16.5	125.27	100.0
Oshawa	62	75.50	54.1	42.51	30.4	21.60	15.5	139.61	100.0
Sarnia	51	84.77	62.8	34.09	25.3	16.02	11.9	134.88	100.0
Kingston	54	70.74	58.4	35.25	29.1	15.19	12.5	121.18	100.0

Even taking into consideration that the Ontario figures should be reduced by a figure of approximately $2.50, the Ontario cities appear to be markedly higher than other cities in Canada. This would appear to be the case not only for the total of those taxes but also for the taxes on residential property and on business property, and the business tax. Proportionately, however, it would appear that in the cities in Western Canada and in Halifax the burden of the tax on business real estate is greater, generally speaking, than it is in Ontario.

THE ECONOMIC SIGNIFICANCE OF THE BUSINESS TAX TO ONTARIO MUNICIPALITIES

As was pointed out above, the business tax as a source of revenue for Ontario municipalities can vary over a wide range indeed.

A municipality can benefit or suffer not only by reason of its having more or less business but also by having businesses in particular rate categories. It therefore follows that an attempt should be made to see whether, and to what extent, the business tax may have affected the various municipalities. It was apparent that from the outset a connection between the business tax and municipal finance would be neither obvious nor direct. It was therefore deemed necessary to try to establish whether there were any significant relationships between other relevant statistics that might either provide a framework for an understanding of the effect of the business tax or give some clues as to where one might look for better evidence.

As has been mentioned before, a fair amount of municipal information was available in the 1962 Blue Book published by the Department of Municipal Affairs. From this, figures of total assessment, business tax assessment, total tax levy, and total revenue collected were taken for 938 municipalities and converted to per-capita figures using the populations for the various municipalities as given in the Blue Book. To this basic information was added that from Mrs. Rowan's study mentioned above which permitted the inclusion of the average rate of the business tax which was applicable for a number of the municipalities. Unfortunately this was available for only 348 of the total number of municipalities. To this was added the information on earnings which was available from the Dominion Bureau of Statistics, but this in turn was restricted to urban municipalities over 1,000 population. There were only 151 of these in Ontario in 1961.

The first approach was to attempt to uncover any possible relationships by making a very large number of linear correlations between various of these statistics. Correlations were calculated not only for all municipalities but for a number of different groups of municipalities. (In fact, seventeen different groups were processed.) A total of 533 correlations were done by computer, 75 of which were later considered to be invalid.

All of these correlations are given in Appendix C to this study. It might be pointed out to anyone who may not be experienced with correlations that the relationship between any two statistics is expressed by a number which can vary between 1 and —1. The figure is called the coefficient of determination and it may be defined as the proportion of the variation in one variable, usually called the dependent variable, that may be explained by associating it with the other variable, usually called the independent variable. In other words, a coefficient of

determination of say, .39, means that 39 per cent of the variation of one of the series of statistics is explicable in terms of its being associated with the other series of statistics with which it was correlated. A minus sign in front of the figure means that large figures of one series of statistics appear to be associated with small figures in the other—an inverse relationship, in other words.

As far as the correlations with total population are concerned it is apparent that population in itself has no simple relationship with any of the data studied. The only correlation that amounted to anything (.43) was the correlation of population and per-capita tax revenue for all municipalities over 40,000 population.

As far as the correlations concerning the per-capita business tax assessment were concerned there were a number of reasonably sized correlations but in a way many of these were to be expected and showed nothing new.

Probably one of the most interesting parts of this study was the correlations between the dependent variables per-capita total revenue, tax revenue, total assessment and business tax assessment on the one hand, and the independent variables of earnings whether expressed measured on the basis of per wage earned, per capita or per household. For the total of all urban municipalities there are some moderately large correlations. For some of the constituent groups of urban municipalities, however, the correlations are generally very low. This may well be due to the fact that some of the groups are too small or lack homogeneity. It is apparent from these figures that there is some relationship between personal income as measured by earnings and municipal income and assessment.

It was apparent that this shotgun approach suffered because there were not sufficient data for all the municipalities and because it was quite possible that the relationships between various of the figures were curvilinear rather than linear. That is to say, the relationships between the two statistics were not direct or would not form a straight line on a piece of graph paper. Rather, if plotted on a sheet of graph paper, they might well take the form of an upward or downward curve, or even of a "U" shape.

At this point it seemed advisable to try another use of the correlation technique. Accordingly, a number of correlations were run off between five dependent variables—the density of population, the square root of the population, the per-capita tax revenue, the total revenue per capita, and the business tax assessment per capita—and seventeen independent variables made up of, for the most part, the remaining statistics used in the study so far. The resulting coefficients of determination are given in Table 5:8. The "X's" in the table indicate that no correlation was run off. This work was based on the statistics of 150 urban municipalities which was the maximum for which data were available.

There are a number of interesting coefficients on this table, some of them reasonably high. (By that I mean anything more than .30.)
The more interesting correlations, as I see them, are as follows. First, there is the evident correlation of tax revenue with the density of population and the square root of the population. Second, there is correlation of earnings per capita with three and possibly four of the five dependent variables. Third, there is a marked consistency of the coefficients with respect to the independent variable

TABLE 5:8

COEFFICIENTS OF DETERMINATION OF CERTAIN URBAN MUNICIPALITIES

Independent Variable	Dependent Variable				
	Density of population	*Square root of population*	*Tax revenue per capita*	*Total revenue per capita*	*Business tax assessment per capita*
Residential assessment per capita	.03	.05	.47	.24	X
Business property assessment per capita	.02	.04	.41	.20	.07
Business tax assessment per capita	.26	.20	.47	.24	X
Total assessment per capita	.15	.15	.70	.36	X
Tax revenue per capita	.17	.27	X	X	X
Total revenue per capita	.05	.17	X	X	X
Earnings per capita	.12	.17	.32	.30	X
Percentage business tax of total assessment	.00	.01	.24	.09	—.00
Percentage business property tax of total assessment	.00	.01	.17	.08	—.02
Percentage residential property tax of total assessment	—.00	—.01	—.21	—.09	.01
Average rate of business tax	.02	.03	.11	.02	.02
Ratio assessment to earnings	.03	.11	.06	.02	.14
Percentage wage earners in population	.31	.23	.31	.26	.21
Wage earners per household	.08	.21	.15	.20	.05
Numbers persons per household	—.06	.01	—.01	.00	—.04
Residential tax levy per capita	.19	.21	.44	.25	.67
Ratio residential tax revenue to total earnings	.00	—.00	.02	.00	.12

percentage wage earners in the population. Fourth, the independent variable wage earners per household shows an interesting correlation with the total revenue per capita and smaller correlations with the tax revenue per capita and the business tax assessment per capita. Fifth, there are correlations of the residential tax levy per capita with each of the dependent variables, being particularly strong for tax revenue per capita and business tax assessment per capita. Finally, there are the correlations of the independent variable percentage residential property tax of the total assessment. While four of these are below the level of significance it might first be noted that four of the five are negative and that the correlation with tax revenue per capita is of reasonable size.

At this point, it became apparent that some further correlations could shed a great deal more light on the matter. First of all, the total revenue per capita figure (which, for most municipalities, is very close to the total per capita expenditure) was correlated with several new independent variables as shown below.

	Coefficients of Determination				
		population size			
Correlation of Total Revenue per Capita and:	Total	30,000 and over	10,000 to 29,999	2,000 to 9,999	1,999 and under
Density of population	.061	.038	−.146	.001	−.024
Square root of density	.035	.111	−.296	.003	−.040
Cube root of density	.143	.126	−.373	.033	−.007
Fourth root of density	.016	.137	−.433	−.027	−.050
Square root of population	.209	.160	.058	.036	.110
Cube root of population	.227	.150	.063	.038	.111
Fourth root of population	.234	.144	.067	.039	.120

The following may be noted from this information. First of all, for the total of all the municipalities used, the various correlations with population size were significant but those with the density of population were quite small. There was a slight increase in the correlations by taking higher roots of the figures. When one turns to the same figures by population group a different pattern emerges. Density of population now produces high negative correlations for the population group 10,000 to 29,999 and generally negative correlations for the other two smaller groups. The correlations with population are generally lower for each of the population groups than they are for the total of all the municipalities.

It should perhaps be noted at this point that it is not uncommon for correlations between two variables to be significantly different when calculated with all the data and when calculated for constituent groups. Such differences may mean that the relationship between the variables is curvilinear rather than linear or that one or more parts of the total may have peculiar relationships of their own. It is also possible for the correlations of various constituent groups to have low or negative correlations while the correlation of the whole has a reasonably large

correlation. The opposite is also true. This may be due to the influence of other factors which, on more careful examination, can be identified and possibly eliminated from the calculations.

In the case of these correlations, the evidence of the correlations with the density of population for the population groups is more important and interesting than of those with the various roots of the population. The figures suggest a curvilinear relationship. This may be explained in this way. Increased density of population may well make the provision of municipal services cheaper due to increasing economies of scale but after a certain point the municipality may no longer gain by further concentration of population. The heavier densities of population may bring a variety of problems so that, economically speaking, the municipality enters a stage of increasing costs. The borderline would appear to be roughly at about the level of 30,000 population.

The conclusions to be gathered from all these correlations are that while total per-capita revenue (or expenditure) may have some relation to the size of the population of the municipality it is by no means a simple relationship and that there is some evidence for increasing and then diminishing economies of scale with increasing size. On the other hand, correlation of total revenue per capita with earnings per capita as shown in Table 5:8 could lead to another explanation. That is to say, higher earnings per capita may be evidence of higher labour costs thereby exerting some influence on the total expenditure per capita. If there were a reasonably strong correlation between population size and earnings per capita then the increased cost per capita of larger municipalities may well be explained as a function of higher labour cost rather than some inherent influence of the size of the municipality. The correlation between population size and earnings per capita of .17 is, to my mind, not sufficient to press this argument.

Turning to the variable tax revenue per capita, a number of further correlations were calculated:

Correlation of Total Tax Revenue Per Capita with:	*Coefficients of Determination*
Density of population	.175
Square root of density	.161
Cube root of density	.320
Fourth root of density	.150
Square root of population	.267
Cube root of population	.285
Fourth root of population	.286
Earnings per household	.202
Business tax and property taxes paid by business as percentage of total tax revenue	.205

It was apparent from this that earnings per household, population size of the municipality and, to a lesser extent, the proportion of taxes paid by business were factors helping to determine the size of the per-capita tax revenue.

Because of the various relationships that emerged from the work to this point it seemed worth while to examine the relationships that the average residential property tax per household would have with the other statistics. Accordingly a number of correlations were run off, the most interesting of which are:

Correlation of Residential Property Taxes per Household with:	*Coefficients of Determination*
Density of population	.084
Square root of density	.060
Cube root of density	.181
Fourth root of density	.045
Square root of population	.255
Cube root of population	.288
Fourth root of population	.295
Earnings per household	.221
Business tax as percentage of total tax revenue	.071
Business property taxes as percentage of total tax revenue	—.135
Total taxes on business property as percentage of total tax revenue	—.119

As may be seen there would appear to be some relationship between residential property taxes per household and earnings per household, population size of the municipality, and the proportion of the total tax bill paid by business. The last named factor is negative, that is to say, the higher the proportion the lower the taxes on households tends to be.

A somewhat closer examination was made of the relationship between taxes per household and earnings per household by dividing the data into the six regional groups mentioned before. The correlations are:

Toronto, Hamilton, Niagara	.034
North and Northwest	.083
Ottawa, Kingston	.415
Windsor, London, Kitchener	.523
Peterborough, Belleville	.493
Bruce Peninsula, Georgian Bay and Lake Huron	.429

It should be kept in mind that since this grouping produced relatively small numbers to work with, the reliability of these figures is less than those for all the data. Nevertheless, it indicated that the relationship for the total may be in fact stronger than the over-all figure would lead one to believe. The relatively low correlations for the first two groups are due to the fact that they both contain large numbers of unusual municipalities. For example, in the Toronto area, the use of the figure of earnings per household for Forest Hill is really inappropriate since income other than wage and salary income is very substantial. In order to check that the last four groups were consistent with each other, the data for the four groups were amalgamated and a correlation of .491 resulted. This indicated that the correlation was in fact consistent and that it was the large number of unusual situations in and around Toronto and in north and northwestern Ontario that were reducing the over-all correlation.

In view of the information so far it appeared reasonable at this point to attempt some multiple correlations, that is correlations where more than one dependent variable is used at the same time. Such an operation has two values. First, it gives a measure by which the variation in a particular statistic can be explained by the combined association with other statistics. Second, it is possible through the further calculation of what are called partial correlation coefficients to establish the correlation between two statistics when the influence of the other independent variable or variables is kept constant. Thus, for example, it is possible to find out whether the relationship between two variables is a true one or whether it is the result of both of the variables being related to one or more other variables.

The results of this work can be summarized with the presentation of three multiple correlations which were calculated using these three dependent variables: total revenue per capita, total tax revenue per capita and property taxes per household. Each of these dependent variables was correlated with these three independent variables: earnings per household, the fourth root of the population and the total property and business taxes paid by business as a percentage of the total tax revenue. The coefficients of multiple determination are:

Total revenue per capita	.448
Total tax revenue per capita	.492
Residential property taxes per household	.564

I consider these correlations remarkable in view of all the shortcomings of the data. They mean that about half of the variation in the dependent variables can be explained by association with the three independent variables. The remaining half has to be explained by other factors including the freedom of municipal councils and the citizenry of the various municipalities to choose the level at which municipal functions should be performed.

For each of these computations, partial correlations were also calculated. A comparison of the simple and partial correlations of each of the dependent variables with each of the independent variables is of some interest.

	Simple Correlation	*Partial Correlation**
Total Revenue per Capita with		
Earnings per household	.315	.196
Fourth root of population	.229	.118
Taxes on business as percentage of total revenue	.111	.092
Total Tax Revenue per Capita with		
Earnings per household	.202	.078
Fourth root of population	.286	.244
Taxes on business as percentage of total revenue	.205	.326
Residential Property Taxes per Household with		
Earnings per household	.221	.205
Fourth root of population	.295	.268
Taxes on business as percentage of total revenue	— .119	— .307

***Correlation between the two variables if the influence of the other two independent variables is kept constant.**

In the case of the dependent variable total revenue per capita, the partial correlations are all lower than the simple correlation, indicating that the simple correlations were enhanced by the influence of the other independent variables not used in the calculation. With respect to the dependent variable total tax revenue per capita, the partial correlations indicate that the simple correlation with earnings per household was overstated because of the relationship of this independent variable to the remaining two independent variables. On the other hand, the correlation with taxes on business as a percentage of total revenue is increased when the influence of the other two independent variables is kept constant. This would indicate that the proportion of tax revenue coming from business is one of the most important, if not the most important, influence on the total tax revenue per capita. It is of some interest to compare the partial correlations of the two dependent variables total revenue per capita and total tax revenue per capita. First of all, it may be noted that the influence of earnings per household is much higher as a determinate of total revenue per capita than it is for tax revenue per capita. This might be construed to support the idea that the level of earnings in a municipality is more important as an indicator of the cost of providing municipal services than it is of providing a base on which to obtain revenue since, as has already been noted, the total revenue per capita is to all intents and purposes equal to total expenditures per capita.

Turning to a consideration of the dependent variable property taxes per household, it is interesting to note that the partial correlations for earnings per household and the fourth root of the population are reduced by only small amounts, while that for taxes on business as a percentage of total revenue is increased substantially.

The quite high correlation of multiple determination (.564) is apparently the result of an association of residential property taxes per household with earnings per household, the size of population of the municipality and inversely with the proportion of taxes paid by business. In other words residential property taxes are higher if earnings per household are higher and the municipality is larger but are lower the higher the proportion of taxes that are collected from business.

Some care must be used in interpreting the last factor. It does not mean that if a municipality has a large proportion of its tax revenue coming from business the taxes on residential property will be reduced proportionately. It is sufficient only that as the proportion of taxes from business rise there is a tendency toward a consistent decrease in residential taxes although that decrease may be small. In fact consistency would be more important in producing a high correlation than large but less consistent figures. In other words, if municipalities reduced residential taxes at the rate of 1 per cent if their tax revenues were 10 per cent of their total revenue and 2 per cent if they were 20 per cent, etc., the correlation would be —1.00 but the reduction of residential taxes under the circumstances would be very limited indeed. In this case the municipality would be using most of the tax revenue from business to afford a higher level of municipal spending. A study of the influence of the factor was therefore undertaken and it appears that the effect of a higher proportion of taxes coming from business does indeed have a significant influence in reducing the residential property tax. Roughly, it would seem that about half of the advantage of a high proportion of taxes coming from business is used to reduce residential property taxes.

Before leaving this subject I believe it might be wise to mention the results of another correlation which was undertaken to attempt to determine the extent to which the relative propinquity of municipalities influenced the average residential property tax per household. For this purpose the statistics of the average residential property tax per household were taken for all urban municipalities excluding those in Metropolitan Toronto. Municipalities were selected at random and the statistic was correlated with the same statistic for the nearest municipality for which there was a similar figure available. To eliminate some possible bias, the nearest municipalities were chosen in turn from the north, the east, the south and then the west. That is to say, the statistic for the first municipality was correlated with the statistic of the nearest municipality to the north of it. The statistic for the second municipality was correlated with that of the nearest municipality to the east, etc. In view of the fact that there were obviously a number of factors working to influence the average residential property tax per household in each municipality, it was rather surprising to find that the correlation worked out to be .21. I consider this value rather high. It suggests that there is a tendency for the residential property tax burden per household of a particular municipality to be kept in line with neighbouring municipalities. If this is considered along with the results of the multiple and partial correlations of residential property tax per household discussed above it would suggest that the influence of average earnings per household is being understated. Unfortunately I do not know of any statistical device to introduce the influence of propinquity into the multiple correlation calculation.

To sum up, these studies would suggest the following relationships.

1. The higher per-capita revenue/expenditure of the larger municipalities is possibly the result of the following three factors in order of importance:

a. Tax revenue sources in larger centres may be proportionately greater than in smaller centres, thus allowing a higher standard of municipal service to be performed. It would appear that the most important tax resource in this respect is that of the availability of business property for taxation purposes.

b. Larger municipalities (particularly those over 30,000 population) are adversely affected by increasing costs of providing municipal services inherent in the concentration of large numbers of people. It would also appear that there is some evidence to support the view that below 30,000 population municipalities may reap the advantage of decreasing costs.

c. The cost of providing services in larger municipalities is increased by the tendency for labour costs to be higher in larger centres.

2. There would appear to be a tendency for residential property taxes per household to bear a direct relationship to earnings per household. It would appear that for the municipalities studied, taxes were a little less than 6 per cent of earnings. At the same time there would appear to be a tendency for near-by municipalities to have similar amounts of residential property taxes per household. While the availability of tax revenue from business tended to reduce the burden of property taxes per household, only about one-half of the revenue from this source was used for such a purpose. This suggests that municipalities tend to establish tax rates such that the burden per household is in line with the earnings of the population and with the burden of neighbouring municipalities and use a significant portion of their other revenues to afford a higher standard of municipal service.

CHAPTER 6

The Incidence of the Ontario Municipal Business Tax

The Incidence of Taxes

VIRTUALLY all taxes are shifted to some degree. Who finally pays any tax—that is, where the incidence of the tax rests—is impossible to determine accurately. Unfortunately, the imposition of any tax has effects on the economy apart from the redirection of the flow of goods and services and it is impossible to separate the loss resulting from the payment of the tax from the loss (or perhaps profit) resulting from the effects of the tax. At the same time the effects of the expenditure of the government revenue for which the tax was imposed in the first place will further complicate the matter. It is unlikely that there ever will be any satisfactory resolution of this theoretic situation. Quite probably in time to come when there are sufficient relevant statistics and economic data available and the economic theory on the subject has been developed further in mathematical terms, it will be possible to work out, at least in broad lines, the main features attaching to the imposition of a change in a tax. Until then one must content oneself with a rather traditional and perhaps laboured argument.

Most textbook discussions of the shifting and incidence of taxation refer immediately to the markets in which the taxpayer must sell his goods and services and buy his labour and materials and other services. Thus, for example, if the market for a good is supplied by many businesses, then a tax on one or a group of these businesses will not be shifted to the consumer. If all suppliers were subject to the tax but if the good was competitive with other goods in the market, again the tax would only be shifted to the extent that the other goods fail to substitute entirely for all the features of the good whose suppliers are taxed. In other words the shifting is limited if the tax does not affect all suppliers and to the same degree, or if there are substitutes in the market for the good whose suppliers are taxed. Much the same sort of approach can be taken toward suppliers of the taxpayer (backward shifting). Here the taxpayer may attempt to reduce the tax burden by obtaining lower prices for his labour, material, machinery, or premises. While discussions of backward shifting have been less common in the textbooks in economics recently, there is no doubt that this does take place. It is possible that backward shifting is lost because the continuous inflation that has characterized our economy for almost thirty years has tended to make this a relative rather than an absolute thing. The shifting will depend on the extent to which all buyers are taxed and whether they are taxed to the same degree and whether or not the particular item the taxpayers are buying in the way of a supply is particular to the business of the taxpayer.

A monopolist is in the situation where, if he has priced his product to get the maximum net return taking into consideration his cost and the consumer's demand,

he would find a tax imposed upon him impossible to shift forward to his consumer. Unless he can shift the tax backward the burden will fall entirely on his net profits.

A monopsonist (a single buyer) may tend toward forward shifting if he is maximizing his profit position in his place as a single buyer.

This sort of analysis is valid enough as far as it can be taken. There are, however, a number of things that stand out. First of all a great deal depends on the nature of the market for the good or service sold by the taxpayer. While these may be regarded as static from the point of view of making an analysis, in fact they are in a constant state of flux. A taxpayer may find that a tax that in the past he has been able to shift, he is no longer able to shift. Much the same can be said about that more complicated aspect of tax shifting analysis, that is, the shifting backward of the tax to the suppliers of the taxpayer.

By and large it usually takes some period of time for the shifting of taxation to take place and for the incidence of the tax to become known (if indeed, it ever does become known). The speed at which this occurs varies considerably with the nature of the tax. Generally speaking, three types of taxes can be imposed: those on capital, those on income, and those on consumption. Taxes on consumption are usually shifted fairly quickly. Taxes on income and capital are shifted only over a much longer period of time. In fact some people argue that taxes on income and particular types of capital are not shifted at all. It used to be maintained that an income tax on persons was not shifted nor was an income tax on a corporation. The latter is certainly not true although the time it takes to shift this tax and the extent to which this tax can be shifted will vary greatly from business to business. There is no doubt that the tax on personal income is shifted to some degree particularly for persons in the lower levels of income.

A tax on capital that takes the form of a tax on real property will be shifted only after a considerable period of time. In so far as it concerns land, it cannot be shifted. The incidence of this tax will be permanently on the owner of the land when the tax is imposed or when the level of the tax is changed. The value of the property will be reduced by the capitalization of any annual tax imposed. The shifting of the tax on buildings will depend upon the supply of equivalent buildings in the particular community. It is likely that the tax will be shifted back and forth between the landlord and the tenant over a period of time depending on the relative supply of appropriate accommodation.

The size of the tax relative to gross receipts or to net income is also very important. The larger the tax the greater the effort that will be made to shift the tax; the smaller the tax the greater the chances that it will be absorbed by the taxpayer. In the long run, however, even small taxes will tend to be shifted away from the taxpayer if at all possible.

To all these considerations there is often added a further factor—that a tax can be shifted more easily the more prosperous or buoyant the economy. This may be a legitimate factor, but a buoyant economy is usually associated with rising prices and a degree of optimism with respect to getting away with higher prices. At the same time the businessman-taxpayer may be unaware that the tax has been shifted to him from his suppliers. Thus relatively he may not have shifted the tax at all and may, in fact, be bearing the same relative burden as before.

THE INCIDENCE OF THE ONTARIO BUSINESS TAX

The fact that the business tax in Ontario is imposed as a percentage of the property tax suggests immediately that it is a tax on capital. However, two things should be noted. First of all the tax is on property used for the purpose of carrying on a business. Therefore liability for the tax can cease if the property does not continue as a business premise. Thus the remarks above with respect to the incidence of a tax on land do not necessarily hold. Second, the business tax is upon the occupier of the business premise and this opens the door to the very great possibility of some shifting backward and forward between landlord and tenant depending on the availability of the particular type of business accommodations. On the other hand many municipalities zone the land within their borders for various uses. Thus the imputed land portion of the business tax may yet remain upon the land owner.

This suggests that the incidence of the business tax will vary according to whether the business is a commercial venture in the form of a retail store, an industrial venture, a professional service, a financial institution, etc. Commercial businesses and the various professional service businesses tend to rent their premises rather than own them. On the other hand manufacturers, particularly if the manufacturing process requires peculiar types of machinery, usually own their business premises. Further, the first two groups tend to have shorter economic lives than those engaged in manufacturing. Thus, the first two are much more open to the possibility of the tax being shifted backward to the landlord than is the case with industrial properties. For long-lived industrial concerns the shifting of the tax may be delayed to the point that it may be considered to be of no consequence at all. In fact the distinction might even be made with respect to industrial properties that those that involve large outlays of capital having a particular nature are probably at a disadvantage compared to those businesses that are capable of using almost any form of building.

Most people when they are asked their opinion about the incidence of a tax are usually impressed with the short run, and since the business tax is not one that is likely to be shifted in the very short run it is to be expected that most businessmen consider that they bear the burden of this tax to a very large extent. On the other hand much of the comment made by non-businessmen on the shifting of the business tax seems to tend toward the idea that the greater part of it is, in the long run, shifted to consumers or suppliers, and the extent to which it is borne by business owners is offset by at least a half in view of the fact that the business tax is deductible from income before the calculation of taxes. The implication of this latter statement is that about half of the tax burden that finally remains with the taxpayer is in fact shifted to the federal and provincial governments and is borne by the people of Canada at large. The assumption that one-half of the business taxpayer's ultimate burden is shifted or relieved in this fashion is, of course, a gross oversimplification. If the business is unincorporated, the net return to the owner could be in any of the personal tax brackets but is likely to be in one significantly less than 50 per cent. If the business is incorporated, one should keep in mind that the effective tax rate of the majority of the corporations in

Canada is influenced by the fact that the first $35,000 of taxable income bears the low rate of 21 per cent. In either case, there can be no offset of the tax if there should be a loss. (In the 1961 taxation year, 55,000 of 127,000 or 43 per cent of all companies liable for taxation reported a loss.) It is true, of course, that there can be some carry forward of a loss but for the marginal business which staggers on, living perhaps on its capital, the burden is not reduced by this means. Thus the argument that the business tax in so far as it does fall on the business owner loses its impact because of the income tax is not one necessarily in favour of the tax. It can be cited as strong evidence of the inequity of the tax in that it treats the marginal business more harshly that it does the well-established one.

In Chapter 1 of this study it was mentioned that a questionnaire was circulated among various groups of Ontario businessmen, and among other things, some of these groups were asked questions aimed at trying to assess where they thought the burden of the business and property tax would lie. The respondents were asked to assess what they thought they would do under two hypothetical situations. The first of these situations was a substantial and permanent increase in both the property and business taxes (a doubling of the present levels was suggested). The other situation was a substantial and permanent decrease in both property and business taxes (a complete abolition of these taxes was suggested). The respondent was asked to apportion the increase (or decrease) in the property and business tax in the form of a percentage as between that which would be passed on to customers; that which would affect the business's expenditure on the use of land and buildings, and in other areas of expense; and finally that which would affect profitability. Where it seemed applicable, the question was asked on two further bases: that the increase or decrease in the property and business tax was effective for all firms in Ontario only, and that it affected all firms in Canada generally. The question for all groups of businesses except manufacturers was phrased in such a way that it was possible to make quick simple averages of the replies and these are given in the following two tables.

Before making any remarks on these figures it should be noted that these are open to several biases. First of all, it has already been noted that taxpayers may tend to emphasize the impact on themselves. Further, they will tend to take the short-run view since it is difficult for many, if not most, people in business to think in terms of the long run; they are obsessed with day-to-day problems. Second, the tables are based on those business people who undertook to reply. This may mean that the sample is biased in favour of those businessmen who felt that the taxes impinged on them with particular severity. Third, another bias may have been introduced by combining both the business and the property taxes. Property taxes are not necessarily as easily shifted as business taxes might be.

Keeping these thoughts in mind, the figures are not too far from what one might have expected. There would appear to be a ring of honesty in the fact that where it was assumed that taxes would be decreased, the replies were not too different from where it was assumed that taxes would be increased, particularly as far as that part of the tax burden which the respondent felt might stay with him.

TABLE 6:1

SUMMARY OF QUESTIONNAIRES

Reaction to Large Change in Business and Property Taxes in Ontario only

Type of Business Tax	*Increase or Decrease in Tax*	*Short or Long Run*	*Average opinion as to where burden will fall (Total=100%)*			
				Expenses		
			Customer/ Client	*Land and Building*	*Other*	*Profits*
Trust Companies (Business tax bracket—75%)	Increase	Short	—	—	—	100
	Increase	Long	—	4	13	83
	Decrease	Short	—	—	—	100
	Decrease	Long	—	—	8	92
Life Insurance Companies (Business tax bracket—75%)	Increase	Short	20	2	2	76
	Increase	Long	44	6	4	46
	Decrease	Short	31	3	5	61
	Decrease	Long	57	3	4	36
Investment Dealers (Business tax bracket—75%)	Increase	Short	—	—	—	100
	Increase	Long	1	1	—	98
	Decrease	Short	—	2	4	94
	Decrease	Long	1	3	6	90
Stockbrokers (Business tax bracket—50%)	Increase	Short	—	—	1	99
	Increase	Long	—	1	1	98
	Decrease	Short	—	—	4	96
	Decrease	Long	—	1	8	91
Sub Total	Increase	Short	7	1	1	91
	Increase	Long	18	2	3	77
	Decrease	Short	11	2	5	82
	Decrease	Long	23	2	5	70
Retailers (Business tax bracket—various —average—35%)	Increase	Short	25	3	5	67
	Increase	Long	39	3	5	53
	Decrease	Short	27	14	14	45
	Decrease	Long	38	14	13	35
Restaurants (Business tax bracket—25%)	Increase	Short	39	6	4	51
	Increase	Long	50	7	3	40
	Decrease	Short	19	16	21	44
	Decrease	Long	28	16	21	35
Sub Total	Increase	Short	28	3	5	64
	Increase	Long	41	4	5	50
	Decrease	Short	25	14	16	45
	Decrease	Long	36	14	15	35
Funeral Directors (Business tax bracket—25%)	Increase	Short	60	3	2	35
	Increase	Long	73	5	3	19
	Decrease	Short	56	11	12	21
	Decrease	Long	61	12	12	15
Radio and Television Broadcasters (Business tax bracket—25%)	Increase	Short	10	2	1	87
	Increase	Long	35	3	4	58
	Decrease	Short	7	17	21	55
	Decrease	Long	21	5	25	49
Wholesalers (Business tax bracket—75%)	Increase	Short	14	3	3	80
	Increase	Long	24	6	5	65
	Decrease	Short	17	17	10	56
	Decrease	Long	27	13	15	45
Total	Increase	Short	23	3	3	71
	Increase	Long	37	4	4	55
	Decrease	Short	24	12	12	52
	Decrease	Long	34	11	12	43

Source: Based on questionnaires received by this Committee.

TABLE 6:2

SUMMARY OF QUESTIONNAIRES

Reaction to Large Change in Business Taxes and Property Taxes in Canada generally

Type of Business Tax	*Increase or Decrease in Tax*	*Short or Long Run*	*Average opinion as to where burden will fall (Total—100%)*			
			Customer/Client	*Expenses*		*Profits*
				Land and Building	*Other*	
Trust Companies (Business tax bracket—75%)	Increase	Short	—	—	—	100
	Increase	Long	—	6	6	88
	Decrease	Short	—	—	—	100
	Decrease	Long	—	—	12	88
Life Insurance Companies (Business tax bracket—75%)	Increase	Short	21	2	2	75
	Increase	Long	51	4	1	44
	Decrease	Short	33	2	5	60
	Decrease	Long	64	2	2	32
Investment Dealers (Business tax bracket—75%)	Increase	Short	—	—	—	100
	Increase	Long	1	—	—	99
	Decrease	Short	—	3	6	91
	Decrease	Long	2	3	9	86
Stockbrokers (Business tax bracket—50%)	Increase	Short	—	—	1	99
	Increase	Long	—	1	2	97
	Decrease	Short	—	—	6	94
	Decrease	Long	—	—	6	94
Sub Total	Increase	Short	10	2	—	88
	Increase	Long	26	1	—	73
	Decrease	Short	15	2	3	80
	Decrease	Long	32	3	6	59
Radio and Television Broadcasters (Business tax bracket—25%)	Increase	Short	17	17	—	66
	Increase	Long	17	17	—	66
	Decrease	Short	17	—	17	66
	Decrease	Long	17	—	17	66
Total	Increase	Short	12	1	—	87
	Increase	Long	26	1	—	73
	Decrease	Short	16	1	3	80
	Decrease	Long	30	3	7	60

Source: Based on questionnaires received by this Committee.

For example, the trust companies said that in the short run an increase or a decrease in the tax would simply mean an increase or a decrease in their profits.

The proportion of the tax burden falling on profits is higher than I would think most people would expect. This would be perhaps due to the biases mentioned above. On the other hand, the burden of a loss or profit accruing to the business owner may be tempered by the effects of corporate income taxes. This may be part of the reason why the respondents to the questionnaires tended to say that in the case of an increase in the taxes the burden would be shouldered by the owner of the business while in the case of a decrease in the taxes less would

be shouldered by him. In other words it is possible that the owner would be less sensitive to an increase in such taxes than he ordinarily might be because of the effect of the corporate income tax. On the other hand a decrease in property and business taxes may well be used to increase services or reduce prices rather than increase profits and lose half of them to the federal and provincial governments. This may or may not assume that the businessman's increased expenditure in this form was believed by him to bring in larger profits by means of larger volume. On the other hand, the use of the tax to increase expenses or reduce sales may have no rationale other than that it is part of the competitive game.

It should be noted again, for what it is worth, that the questionnaire asked for the reaction to a substantial increase or decrease of *both* the property and the business tax. It is conceivable that if the respondents were asked to give their reactions to just the business tax a quite different set of figures would have emerged. Apart from the fact that a business tax would be a much less significant item of expense to most of these businesses, the fact that it is assessed upon the occupier of the business premises does allow for more shifting particularly in the area of the expenses in the use of buildings.

The fact that the effect of a change in the tax as far as financial businesses were concerned fell almost entirely on profits is easily understood in view of the fact that the charges to customers are often long established and are in the form of percentages which are not amenable to adjustment for small amounts. (It is also possible that in their replies these organizations, being in rented premises for the most part, actually interpreted this question to include only the effect of the business tax.)

Among retailers, restaurateurs, funeral directors, wholesalers, and radio and television broadcasters, there is an interesting tendency to spend more on buildings and other expenses if the tax were recovered but not to cut back on such expenses if the tax is increased.

It might also be noted that, without exception, in the long run, more of the incidence of a change in the tax will be shifted toward the customer or client and away from the owner.

On the basis of the rather limited information on which the second table is based, there would appear to be no significant differences as far as these businesses are concerned as between the case where the taxes were changed in Ontario only and when they were changed in Canada generally. This is to be expected in that most of these businesses would be competing in relatively local markets.

A somewhat different question on the incidence of taxes was circulated to various manufacturers in Ontario. Because of the nature of the question, the replies are very difficult to summarize and could not be included in this study without an undue amount of labour. Suffice it to say that there would appear to be large differences between different types of manufacturing and also within some of the larger classifications of manufacturers.

It is unfortunate that it was not possible to get similar information from some of the professional service people such as medical doctors, lawyers, etc., and personal service businesses such as barbers and repairmen. However, some

generalizations can be made from the theory put forward in the first section and the empirical data available in the second.

First of all, there is obviously a very large variation in the incidence of the tax from business to business. In the case of financial businesses where a 75 per cent rate applies (except for stockbrokers, who are subject to a 50 per cent rate), the incidence is very heavy upon the owners.[1] But this is not true of life insurance companies which are also in the 75 per cent category. From the other point of view the difference in incidence between retailers and wholesalers is not so great although the tax rates are 75 per cent for wholesalers and average about 35 per cent for retailers. While there is variation in the incidence of the tax between major classes of businesses there is also variation of considerable significance within the major classifications themselves.

Second, the burden falling on business owners may be much greater than has been assumed up to this point by those who have considered the incidence of the tax. This may well mean in the case of many of our manufacturing industries that we are putting them at a disadvantage compared to manufacturing companies in other provinces (where the tax may be lower or absent) or abroad.

Third, since the shifting of the tax depends to some degree on the nature of the market in which the business sells, the burden of the tax may well rest more heavily on those firms (and by inference on the owners of those firms) who are facing the greatest difficulties in their business life. For example, the tax would fall with great impact on the owners of a firm exporting a product, the market for which had become very competitive because of satiation (excess capacity), the entry of new firms, or the introduction of substitutable goods. The opposite, of course, is also true.

In summary, then, it can be said that because of the particularly erratic nature of the incidence of the tax, there exists a good possibility that the Ontario business tax has a large number of inequitable situations, some of which may not be evident even to the owners of the business. This possibility of inequity extends beyond business owners to suppliers and customers or clients and here the inequity is less likely to be evident to those who bear the burden.

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[1]And, I suspect, also on the employees. For example, investment firms and stockbrokers often distribute much of their "profit" before their year ends in the form of bonuses not only to the partners but also to the employees of the firm.

CHAPTER 7

The Economic Significance of the Ontario Municipal Business Tax to Ontario Businesses

As was pointed out in the previous chapter, it is often very difficult to distinguish between the incidence of a tax and the economic effects of a tax. It is conceivable that a business might pass on a tax to its customers and thus bear no burden but nevertheless might suffer by virtue of the tax in that the higher prices charged to the customers resulted in reduced volume. It would appear that a significant proportion of both the incidence and the effects of the tax fall upon the business itself, and by inference, on the owners. Should one take the view that the bulk of the burden of the tax falls upon the business, then it becomes necessary to look at the financial position of various businesses. In view of the fact that the Ontario business tax is based on the assessed value of the lands and buildings occupied for business purposes and also that the tax is classified mainly in terms of the type of business carried on, it is of interest to inquire into the relative profitability of various businesses measured on several bases.

The Profitability of Canadian Businesses

Table 7: 1 gives for eleven main industry groups in Canada, nine ratios calculated from the taxation statistics published annually by the Department of National Revenue. As may be seen, there is very considerable variation between these main groups. Profit as a percentage of revenues varies from zero to 23.8 per cent. When profit is expressed as a percentage of total assets the manufacturing group is the highest (6.2 per cent); when measured in terms of net worth the retail trade group is the highest, with 11.9 per cent. Of particular interest is the ratio of profit to those assets which are roughly equivalent to the real property. Unfortunately, for this particular year, 1961, the value of land and buildings is not separated from that of land, buildings, and equipment. It might be noted, however, that the ratio of profit to land, buildings, and equipment, undepreciated, is 13.2 per cent for wholesale businesses and 15.0 per cent for retail businesses. It may be recalled that the Ontario business tax discriminates fairly heavily against the wholesale trade, manufacturing, and financial businesses. In view of the fact that the business tax in Ontario is supposed to be a rationalization of the property, both real and personal, owned by businesses, the ratio of profit to land, buildings, and equipment (depreciated) and inventories is particularly interesting. While the ratio for manufacturing is the highest (10.4 per cent), it should be noted that manufacturing businesses have the largest proportion of depreciable assets of all of the groups listed.

The figures in Table 7:1 were made up from the major industrial groups. In Table 7:2 the median and range of these same ratios are given for eight of these

TABLE 7:1

VARIOUS RATIOS OF MAIN GROUPS OF INCORPORATED INDUSTRIES IN CANADA, 1961*

Industry	Profit as a percentage of:						Ratio of Revenue to:		
	Revenues	*Total assets*	*Net worth*	*Land, buildings and equipment*	*Land, buildings and equipment (depreciated)*	*Land, buildings and equipment (depreciated) plus inventories*	*Total assets*	*Net worth*	*Land, buildings and equipment (depreciated) plus inventory*
Agriculture	1.4	0.9	1.9	1.3	1.6	1.3	0.6	1.4	0.9
Forestry	1.9	2.3	5.5	3.2	6.5	4.3	1.2	2.9	2.2
Fishing	0.0	0.0	0.0	0.0	0.0	0.0	0.6	1.3	1.3
Mining	7.9	2.8	5.0	3.9	6.6	5.8	0.4	0.6	0.7
Manufacturing	5.7	6.2	10.7	8.4	16.3	10.4	1.1	1.9	1.8
Construction	2.1	3.5	11.4	7.7	14.8	7.6	1.6	5.4	3.6
Transportation, storage, communication and other utilities	10.1	3.7	8.0	3.4	4.8	4.6	0.4	0.8	0.5
Wholesale trade	1.8	4.1	10.0	13.2	22.6	7.0	2.2	5.5	3.8
Retail trade	2.0	5.3	11.9	15.0	24.8	9.7	2.6	5.8	4.7
Finance, insurance and real estate	23.8	2.5	3.1	6.7	8.1	7.8	0.1	0.1	0.3
Service	3.8	3.3	8.1	4.6	7.3	6.9	0.9	2.1	1.8
TOTAL	4.6	3.9	7.9	6.7	11.0	8.0	0.8	1.7	1.8

*(Includes only the "fully tabulated" corporations—104,596 out of 127,030—excludes banks, inactive companies, co-operatives, and incomplete returns.)
Source: Department of National Revenue, Taxation Statistics, 1963.

major industrial groups. As may be seen, there is a considerable variation as indicated by the high and low figures. For example, for manufacturing, profit as a percentage of revenue varies from a loss of 1.3 per cent to a profit of 16.8 per cent. Profit as a percentage of land, buildings, and equipment varies from a loss of 0.7 per cent to a profit of 44.4 per cent. One should keep in mind that this is based on the variation of the minor groups within the major groups. If it were possible to look at individual companies the range would obviously be far greater.

The question may well be raised whether these various ratios as given in the two preceding tables are affected by the size of the business. In Table 7:3 the ratios are given for all industries in Canada for the five years 1957-61 grouped into nine classes according to total asset size.

It may first be noted that when profit is expressed as a percentage of revenue there would appear to be a very definite upward trend with the size of the business. However this is not so with respect to the other ratios: when profit is expressed as a percentage of total assets there would appear to be no particular trend with size. On the other hand, when profit is expressed as a percentage of net worth there would appear to be some tendency for profitability to decline with increasing size. The same could be said for profit when expressed as a percentage of lands, and buildings, and equipment undepreciated. One might note that there is a ratio on this table that does not appear on the previous two tables since it was available only for the year 1959. That ratio, profit as a percentage of land and buildings, would appear to indicate that profitability with respect to land and buildings was higher for the smaller companies.

It might be noted that there is relatively little change in these figures over the five-year period. This is particularly true as far as the ratio profit as a percentage of revenue is concerned.

A closer examination was made of the first ratio, profit as a percentage of revenue, and it was found that this was the result of two rather unusual situations. In Table 7:4 the ratio is given not only for all companies but also for those companies that made a profit and for those companies that had a loss. It may be seen that the profitability of the profit companies was reasonably high for the small companies and declined through the first four groups and then began to increase through the five larger groups. This appears to be true in almost every year. On the other hand, as far as the loss companies are concerned, the small companies would appear to have the largest losses and there is a trend for the losses to become smaller as the size of the company increases. The combination of these two features gives the almost continuous trend when the profit and loss companies are put together.

Table 7:5 gives the same information as was given in Table 7:3 except that its figures are restricted to manufacturing industries. Here again the profit as a percentage of revenue shows a very definite upward trend with size and here again the same explanation applies. These ratios are not too dissimilar to those for all companies except that profit as a percentage of net worth does not show the same declining trend. Furthermore, the single ratio of profit as a percentage of lands and buildings shows no particular trend with size except that it would appear to be noticeably lower for the businesses with assets in excess of $25 million.

TABLE 7:2

MEDIANS AND RANGE OF VARIOUS RATIOS OF MINOR GROUPS WITHIN MAJOR INDUSTRIAL GROUPS OF INCORPORATED COMPANIES, 1961

Industry		*Profit as a Percentage of:*						*Ratio of Revenue to:*		
		Revenues	*Total assets*	*Net worth*	*Land, buildings and equipment*	*Land, buildings and equipment (depreciated)*	*Land, buildings and equipment (depreciated) plus inventories*	*Total assets*	*Net worth*	*Land, buildings and equipment (depreciated) plus inventory*
Mining	Median	3.3	2.5	3.9	3.4	6.4	5.4	0.5	0.8	1.1
	Highest	13.6	8.1	15.3	9.6	19.3	16.0	1.5	3.8	3.2
	Lowest	0.0	(0.4)	(2.3)	(2.3)	(2.3)	(2.3)	0.0	0.0	0.0
Manufacturing	Median	4.4	5.8	10.3	9.0	19.6	9.6	1.3	2.3	2.3
	Highest	16.8	17.5	34.5	44.4	87.8	38.7	4.9	8.9	7.6
	Lowest	(1.3)	(0.4)	(3.2)	(0.7)	(0.7)	(0.6)	0.3	1.0	0.4
Construction	Median	2.6	4.3	12.2	7.9	16.0	9.1	1.6	4.3	3.4
	Highest	3.6	5.6	13.9	10.2	20.1	12.5	1.7	6.5	4.5
	Lowest	1.9	3.1	9.5	4.2	11.9	6.4	1.5	3.8	3.2
Transportation, storage, communication and other utilities	Median	6.1	3.5	8.8	3.3	5.4	25.5	0.7	1.7	0.8
	Highest	23.3	9.9	25.9	10.8	29.0	25.5	1.7	4.2	4.2
	Lowest	(4.1)	(4.2)	(13.5)	(4.2)	(8.2)	(7.1)	0.2	0.4	0.2
Wholesale trade	Median	2.0	4.7	8.6	16.9	29.7	7.7	1.9	4.5	4.4
	Highest	2.8	16.4	16.6	37.4	66.8	13.8	4.7	10.5	9.0
	Lowest	1.2	2.2	6.1	3.7	6.2	3.5	1.0	2.7	1.8
Retail trade	Median	2.1	4.6	12.0	13.6	22.4	8.8	2.1	4.6	3.7
	Highest	4.2	9.0	17.2	26.3	47.3	15.1	3.9	10.6	7.0
	Lowest	0.8	1.4	3.0	4.6	7.6	2.9	1.3	3.1	2.2
Finance, insurance and real estate	Median	14.7	2.1	9.6	46.3	63.6	63.1	0.1	0.7	4.0
	Highest	60.9	5.4	21.2	1,833.3	2,200.0	1,466.7	0.6	2.3	24.1
	Lowest	5.3	0.5	0.6	1.1	1.4	1.4	0.0	0.0	0.2
Service	Median	3.1	2.7	8.4	3.4	5.7	5.1	0.9	2.8	1.9
	Highest	10.5	14.9	29.1	43.6	100.0	68.5	4.0	9.4	21.0
	Lowest	1.3	1.7	3.5	1.9	2.6	2.5	0.3	0.6	0.8

Source: Department of National Revenue, Taxation Statistics, 1963.

TABLE 7:3

VARIOUS RATIOS FOR ALL INDUSTRIES IN CANADA, 1957-1961*

Ratio	*Year*	ASSET SIZE								
		Under $100,000	*$100,000-$249,999*	*$250,000-$499,999*	*$500,000-$999,999*	*$1,000,000-$4,999,999*	*$5,000,000-$9,999,999*	*$10,000,000-$24,999,999*	*$25,000,000-$99,999,999*	*$100,000,000 and over*
Profit as percentage of revenue	1961	1.7	2.5	2.5	2.4	3.5	4.4	4.6	6.2	8.5
	60	1.5	2.7	2.3	2.4	3.9	4.6	5.2	6.0	8.6
	59	2.6	2.9	2.9	3.0	4.7	5.6	5.5	6.5	8.4
	58	2.5	2.6	2.3	3.4	4.7	5.1	5.3	6.2	6.7
	57	2.2	2.9	2.1	3.6	4.8	5.7	5.5	6.9	7.4
Profit as percentage of total assets	1961	3.6	4.1	3.7	3.4	4.0	4.4	3.8	3.7	3.9
	60	3.4	4.3	3.6	3.4	4.7	4.6	4.6	4.2	3.9
	59	5.8	5.2	4.7	4.6	5.8	5.6	4.9	4.6	4.1
	58	5.3	4.8	3.9	5.4	5.8	5.2	4.9	4.2	3.3
	57	5.1	5.4	3.8	6.1	6.3	6.2	5.2	4.0	4.3
Profit as percentage of net worth	1961	10.1	10.1	9.4	8.5	8.5	8.3	7.6	7.5	7.4
	60	9.7	10.9	9.2	8.0	9.7	8.5	9.1	8.3	7.3
	59	14.9	12.4	9.9	11.1	11.6	10.3	9.6	8.8	7.5
	58	12.9	11.4	10.1	12.0	11.2	9.4	9.6	8.1	6.0
	57	12.4	12.5	9.5	13.4	12.2	11.5	7.3	10.0	7.9
Profit as percentage of lands and buildings and equipment undepreciated	1961	8.2	8.2	6.7	6.4	7.8	8.7	7.5	7.1	5.7
	60	7.8	8.7	7.0	6.3	9.1	8.7	8.7	7.4	5.7
	59	13.5	10.8	9.5	9.4	11.7	10.7	9.4	8.1	6.1
	58	11.7	9.9	7.9	11.3	11.5	9.6	9.6	7.6	4.6
	57	12.1	11.5	7.8	12.9	12.9	11.6	10.2	9.0	6.0
Profit as percentage of lands and buildings	1959	32.5	20.6	16.8	17.3	21.9	20.6	16.9	13.0	10.6

*(Includes only the "fully tabulated" taxable corporations—104,596 out of 127,030—excludes banks, inactive companies, co-operatives, and incomplete returns.)

Source: Department of National Revenue, Taxation Statistics, 1959-1963.

TABLE 7:3 (continued)

VARIOUS RATIOS FOR ALL INDUSTRIES IN CANADA, 1957-1961

Ratio	*Year*	ASSET SIZE								
		Under $100,000	*$100,000-$249,999*	*$250,000-$499,999*	*$500,000-$999,999*	*$1,000,000-$4,999,999*	*$5,000,000-$9,999,999*	*$10,000,000-$24,999,999*	*$25,000,000-$99,999,999*	*$100,000,000 and over*
Profit as percentage of lands and buildings depreciated	1961	12.3	12.6	10.4	10.5	13.0	15.7	12.3	12.1	9.1
	60	11.6	12.8	10.9	10.1	15.3	15.4	14.4	12.4	9.2
	59	19.9	16.4	14.9	15.0	19.8	19.0	15.4	13.4	9.8
	58	17.3	15.1	11.8	18.0	19.4	16.9	15.5	12.2	7.1
	57	17.7	17.7	11.9	20.6	21.4	20.4	16.0	14.4	9.6
Profit as percentage of lands, buildings, equipment (depreciated) and inventories	1961	7.4	7.9	6.8	6.7	8.2	10.1	8.5	8.6	7.8
	60	6.9	8.0	6.8	6.5	9.7	9.8	9.9	8.8	7.9
	59	11.7	9.8	9.0	9.1	12.3	12.1	10.4	9.6	8.3
	58	10.3	9.0	6.7	10.6	12.0	10.9	10.2	8.8	6.0
	57	8.3	10.1	7.0	11.8	13.0	12.6	10.5	9.9	11.5
Ratio of revenue to total assets	1961	2.1	1.7	1.5	1.4	1.1	1.0	0.8	0.6	0.5
	60	2.3	1.6	1.5	1.4	1.2	1.0	0.9	2.0	0.5
	59	2.2	1.8	1.6	1.5	1.2	1.0	0.9	0.7	0.5
	58	2.1	1.9	1.7	1.6	1.2	1.0	0.9	0.7	0.5
	57	2.3	1.9	1.8	1.7	1.3	1.1	0.9	0.7	0.6
Ratio of revenue to net worth	1961	6.1	4.1	3.8	3.5	2.4	1.9	1.6	1.2	0.9
	60	6.4	4.1	3.9	3.4	2.5	1.8	1.7	1.4	0.9
	59	5.7	4.3	3.4	3.6	2.5	1.8	1.7	1.3	0.9
	58	5.2	4.4	4.3	3.6	2.4	1.9	1.8	1.3	0.9
	57	5.6	4.4	4.6	3.7	2.5	2.0	1.3	1.4	1.1
Ratio of revenue to lands, buildings and equipment (depreciated) and inventories	1961	4.4	3.2	2.7	2.8	2.4	2.3	1.8	1.4	0.9
	60	4.6	3.0	2.9	2.7	2.5	2.1	1.9	1.5	0.9
	59	4.6	3.4	3.1	3.0	2.6	2.2	2.0	1.5	1.0
	58	4.1	3.5	2.9	3.1	2.6	2.2	1.9	1.4	0.9
	57	3.7	3.5	3.4	3.3	2.7	2.2	1.9	1.4	1.5

TABLE 7:4

PROFIT AS A PERCENTAGE OF REVENUE—ALL INDUSTRIES IN CANADA, 1957-61

Companies	Year	Asset Size								
		Under $100,000	*$100,000-$249,999*	*$250,000-$499,999*	*$500,000-$999,999*	*$1,000,000-$4,999,999*	*$5,000,000-$9,999,999*	*$10,000,000-$24,999,999*	*$25,000,000-$99,999,999*	*$100,000,000 and over*
All companies	1961	1.7	2.5	2.5	2.4	3.5	4.4	4.6	6.2	8.5
	1960	1.5	2.7	2.3	2.4	3.9	4.6	5.2	6.0	8.6
	1959	2.6	2.9	2.9	3.0	4.7	5.6	5.5	6.5	8.4
	1958	2.5	2.6	2.3	3.4	4.7	5.1	5.3	6.2	6.7
	1957	2.2	2.9	2.1	3.6	4.8	5.7	5.5	6.9	7.4
Profit companies	1961	5.4	4.8	4.2	3.9	5.4	5.8	6.2	7.7	9.9
	1960	5.4	4.7	4.1	4.0	5.6	6.2	6.5	7.3	9.6
	1959	5.8	4.5	4.1	4.5	6.0	7.0	6.6	7.8	10.5
	1958	5.6	4.5	3.9	4.7	6.1	6.4	6.7	7.6	8.1
	1957	5.2	4.5	3.7	4.9	6.2	7.1	6.6	7.8	8.7
Loss companies	1961	−6.4	−5.0	−4.6	−5.4	−4.5	−4.3	−3.5	−3.8	−1.5
	1960	−6.1	−4.8	−4.5	−6.1	−4.2	−3.6	−3.1	−2.7	−1.1
	1959	−6.2	−5.1	−4.7	−4.1	−4.6	−3.6	−3.4	−3.4	−1.6
	1958	−6.2	−5.2	−5.2	−4.3	−4.3	−4.0	−5.9	−3.5	−2.4
	1957	−5.2	−4.1	−6.2	−3.8	−4.6	−3.5	−5.9	−3.4	−3.7

TABLE 7:5

VARIOUS RATIOS FOR MANUFACTURING INDUSTRIES IN CANADA, 1957-1961*

Manufacturing	*Year*	Asset Size								
		Under $100,000	*$100,000-$249,999*	*$250,000-$499,999*	*$500,000-$999,999*	*$1,000,000-$4,999,999*	*$5,000,000-$9,999,999*	*$10,000,000-$24,999,999*	*$25,000,000-$99,999,999*	*$100,000,000 and over*
Profit as percentage of revenue	1961	1.2	2.5	2.6	2.8	4.6	5.9	6.0	7.3	7.4
	60	1.4	2.4	2.5	2.9	5.3	5.5	6.5	7.1	7.3
	59	1.5	3.0	3.4	3.5	6.1	6.7	7.5	7.8	7.5
	58	1.7	2.0	2.7	3.9	5.8	6.4	7.6	7.0	6.3
	57	1.1	2.5	2.8	4.4	6.4	7.1	7.8	7.4	6.9
Profit as percentage of total assets	1961	2.7	4.9	4.8	4.7	6.9	7.6	7.0	6.6	5.8
	60	3.4	4.8	4.6	5.0	8.0	7.5	7.9	7.2	6.6
	59	3.7	5.9	6.5	5.8	9.5	9.0	8.9	8.2	6.9
	58	3.7	4.1	5.1	6.9	8.8	8.1	9.4	7.1	5.5
	57	2.6	5.2	5.4	8.1	10.1	9.5	9.5	7.8	6.8
Profit as percentage of net worth	1961	7.6	11.0	10.4	8.8	12.7	12.7	11.8	12.0	9.1
	60	8.9	10.8	10.3	10.6	14.6	12.4	13.6	12.4	10.4
	59	9.2	13.0	13.7	12.4	17.2	14.8	15.4	14.1	11.2
	58	8.4	9.6	12.1	13.6	15.1	13.0	16.6	12.1	9.0
	57	6.2	11.4	12.3	16.1	17.8	15.9	16.4	13.6	11.1
Profit as percentage of lands, buildings and equipment undepreciated	1961	5.7	9.3	8.7	8.3	11.5	11.4	10.3	8.5	6.9
	60	7.0	8.9	7.9	8.4	13.0	11.6	11.2	8.8	7.5
	59	8.1	11.4	12.7	10.7	15.9	14.2	13.3	10.3	8.5
	58	7.7	7.9	9.8	13.1	14.5	12.0	13.9	9.2	6.6
	57	5.6	10.8	11.1	15.4	17.0	14.9	14.8	10.5	8.3
Profit as percentage of lands and buildings	1959	30.0	35.8	34.8	27.1	36.3	31.1	26.3	18.3	14.7

*Includes only the "fully tabulated" taxable manufacturing corporations.
Source: Department of National Revenue, Taxation Statistics, 1959-1963.

TABLE 7:5 (continued)

VARIOUS RATIOS FOR MANUFACTURING INDUSTRIES IN CANADA, 1957-1961

Manufacturing	*Year*	ASSET SIZE								
		Under $100,000	*$100,000-$249,999*	*$250,000-$499,999*	*$500,000-$999,999*	*$1,000,000-$4,999,999*	*$5,000,000-$9,999,999*	*$10,000,000-$24,999,999*	*$25,000,000-$99,999,999*	*$100,000,000 and over*
Profit as percentage of lands and buildings depreciated	1961	9.1	17.4	16.2	17.1	22.9	23.5	19.8	16.7	13.1
	60	11.8	16.4	14.9	16.4	25.9	23.3	21.6	17.1	13.9
	59	13.0	21.1	24.7	20.8	31.3	28.7	24.7	19.9	15.7
	58	12.4	14.1	17.3	24.7	28.4	24.0	25.6	17.5	11.7
	57	4.0	7.5	7.8	10.5	11.5	10.0	10.2	7.2	5.8
Profit as percentage of lands, buildings and equipment (depreciated) and inventories	1961	5.1	9.2	8.7	8.7	11.8	12.8	11.8	10.7	9.7
	60	6.6	8.5	7.8	8.7	13.4	12.3	12.9	11.0	10.2
	59	7.5	10.8	11.9	10.2	16.0	15.1	14.2	12.6	11.2
	58	7.0	7.1	8.8	11.8	14.7	12.9	14.6	11.0	8.4
	57	2.9	5.3	5.5	7.4	8.5	7.5	7.8	5.8	4.9
Ratio of revenue to total assets	1961	2.3	2.0	1.8	1.7	1.5	1.3	1.2	0.9	0.8
	60	2.4	2.0	1.9	1.7	1.5	1.4	1.2	1.0	0.9
	59	2.4	2.0	1.9	2.1	1.6	1.4	1.2	1.0	0.9
	58	2.1	2.0	1.9	1.8	1.5	1.3	1.2	1.0	0.9
	57	2.3	2.1	1.9	1.8	1.6	1.3	1.2	1.1	1.0
Ratio of revenue to net worth	1961	6.5	4.4	4.0	3.1	2.8	2.2	2.0	1.7	1.2
	60	6.2	4.6	4.2	3.6	2.8	2.3	2.1	1.7	1.4
	59	6.0	4.4	4.0	4.6	2.8	2.2	2.0	1.8	1.5
	58	4.8	4.7	4.4	3.5	2.6	2.0	2.2	1.7	1.4
	57	5.5	4.6	4.4	3.7	2.8	2.2	2.1	1.9	1.6
Ratio of revenue to lands, buildings, equipment and inventories	1961	4.3	3.7	3.3	3.1	2.6	2.2	2.0	1.5	1.3
	60	4.5	3.6	3.2	3.0	2.5	2.2	2.0	1.5	1.4
	59	4.9	3.6	3.5	1.7	2.6	2.3	1.9	1.6	1.5
	58	4.0	3.5	3.2	3.0	2.5	2.0	1.9	1.6	1.3
	57	2.6	2.1	2.0	1.7	1.3	1.1	1.0	0.8	0.7

The conclusions one might draw from this information are simply these. First of all there is a considerable variation in the profitability of businesses as measured on various bases. Furthermore, there would appear to be no particular trend in profitability with size of business as measured as a percentage of total assets. In fact profit as a percentage of net worth is probably the more appropriate indicator of the owner's position and this would appear to decrease as the size of the business increases. Finally, if one accepts—which I cannot—that profitability as a percentage of net worth is an indication of a particular industry's ability to pay, then it would appear that a tax on land and buildings would have to be classified in a fantastically complicated fashion to approximate it.

THE BUSINESS TAX AND CERTAIN ONTARIO BUSINESSES

As was mentioned in Chapter 1 and again in Chapter 6, questionnaires were sent out by the associations of a number of Ontario businesses to their members and the replies were sent to this Committee. The response to these questionnaires on the whole was very good:

Type of Business	*Percentage Response*	*Type of Business*	*Percentage Response*
Manufacturers	15%	Hotels and motels	12
Retailers	4	Restaurants	5
Wholesalers	54	Radio and television broadcasters	31
Trust companies	60	Funeral directors	13
Life insurance companies	72	Car parks	73
Investment dealers	15	Banks	100
Stockbrokers	26		

The various responses reflect to some extent the interest that these businesses have in the impact of the business tax. However, it should also be kept in mind that some of these associations are much more tightly organized and it is possible for them to exert considerable pressure on their various members to complete the replies. Some groups have a very great interest in the business tax, either because they consider the rate too high or because they fear that their particular rate may be increased. For example, the very high response from the wholesalers reflects the impact of the quite high rate (75 per cent) applying to this business. On the other hand, the quite high response from the car parks was undoubtedly due to fear that their present rate of 10 per cent would be increased to perhaps 25 per cent.[1]

Tables 7:6, 7, 8, and 9 summarize some of the information gleaned from these questionnaires. These particular tables are based on various ratios calculated from the individual questionnaires.

Turning first to Table 7:6, which deals with profitability in terms of gross revenues, one may see a repetition of the information taken from the Taxation Statistics in the previous section for example:

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[1]As recommended in the *Second Interim Report* of the Select Committee on The Municipal Act and Related Acts.

TABLE 7:6

SUMMARY OF QUESTIONNAIRES

Net Profit or Loss as a Percentage of Gross Revenues

Type of Business	*Number*	*Arithmetic means of ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Manufacturers					
Food and beverages	17	7.6	17.7	6.5	1.5
Rubber and rubber products	6	6.3	9.5	5.8	1.0
Leather and leather products	7	3.4	6.6	5.5	3.7
Textiles	10	7.9	11.4	5.9	4.4
Furniture and fixtures	11	8.7	6.0	3.7	1.6
Paper and allied products	21	12.3	17.9	9.7	6.9
Printing and publishing	17	8.2	12.9	3.1	2.4
Primary metal	7	10.0	15.2	9.9	5.4
Metal fabricating	117	5.3	10.6	6.7	1.9
Machinery	21	8.4	15.6	7.1	1.7
Transportation equipment	12	10.3	12.4	4.8	2.2
Electrical and electronic products	41	9.3	14.8	6.0	1.7
Non-metallic mineral products	13	10.8	16.6	11.8	4.6
Petroleum and coal products	5	13.6	25.8	8.3	6.7
Chemical and chemical products	44	9.9	13.5	8.6	5.0
Other	32				
Total	381	7.8	13.6	5.9	2.3
Wholesalers					
Grocery and combination	8	0.8	1.2	0.8	0.6
Variety	3	1.8	2.4	1.9	1.1
Garage and motor vehicle	17	4.3	5.8	2.3	1.3
Hardware	5	3.0	5.3	2.1	1.3
Plumbing and heating	11	14.9	25.0	3.7	1.1
Electrical supplies and appliances	15	6.0	12.7	2.4	1.3
Electronic	6	4.2	5.4	4.7	2.8
Auto parts	8	3.9	5.0	3.9	1.6
Tobacco	11	6.6	15.4	1.1	0.4
Other	5				
Total	89	5.8	5.2	2.1	1.1
Retailers					
Grocery and combination	16	14.2	12.8	4.7	2.2
General	6	18.4	31.8	7.2	5.6
Department	11	5.6	7.5	4.0	2.8
Variety	4	8.6	—	8.7	—
Men's clothing	7	18.4	52.3	6.3	1.2
Women's clothing	4	24.7	—	24.3	—
Hardware	23	15.8	31.8	6.9	2.1
Furniture, appliances, radio, television	15	13.2	16.7	7.9	3.2
Other home furnishings	4	22.3	—	23.9	—
Drug	10	22.7	33.4	6.6	3.4
Automotive dealers	7	4.2	4.8	2.2	0.9
Lumber and building supplies	8	3.1	6.2	2.4	(0.3)
Camera	3	0.5	—	0.6	—
Feed	3	3.4	—	3.6	—
Other	14				
Total	135	15.9	14.8	5.8	2.4

TABLE 7:6 (continued)

SUMMARY OF QUESTIONNAIRES

Net Profit or Loss as a Percentage of Gross Revenues

Type of Business	*Number*	*Arithmetic means of ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Chartered Banks	8	17.0	22.2	16.8	8.8
Life Insurance Companies	24	1.2	2.1	1.1	0.3
Trust Companies	9	22.7	28.4	18.4	14.5
Investment Dealers	23	7.6	14.5	6.4	0.7
Stockbrokers	17	13.1	21.1	8.4	4.7
Radio and Television Broadcasters	24	8.5	13.1	9.0	3.1
Car Parks	6	5.7	12.3	5.2	0.3
Funeral Directors	58	16.2	21.6	14.5	9.6
Restaurants—Total	30	3.7	7.9	3.3	0.2
—alcohol and meals	6	4.1	9.5	3.5	0.5
—no alcohol	24	3.6	6.5	3.3	0.1
Hotel and Motel—Total	199	4.7	9.5	5.0	1.3
—no alcohol	15	10.2	15.6	7.2	4.2
—<50% alcohol revenue	33	5.2	7.9	4.8	1.2
—50-75% alcohol revenue	50	1.0	9.0	4.6	0.7
—75-90% alcohol revenue	61	5.5	8.3	4.9	2.0
—>90% alcohol revenue	40	5.6	8.9	3.7	0.9

Business	*Taxation Statistics*	*Questionnaires*
Manufacturers	4.4%	5.9%
Wholesale trade	2.0	2.1
Retail trade	2.1	5.8

Furthermore, there would appear to be the same degree of scatter around these medians. In other words, not only is there a considerable variation between industries and major groups of businesses but there is also considerable variation within the individual groups of businesses which make up the major groups. This may be seen quite clearly in the figures for the various types of manufacturers. The median profit varies from a low of 3.1 per cent to a high of 11.8 per cent.

Table 7:7 gives the business tax as a percentage of gross revenues. Of all the ratios calculated, this one would appear to have the greatest degree of stability. Nevertheless, even these show a fair amount of variation.

In Table 7:8, the business tax is shown as a percentage of net profit or loss. For those who would like to think of the business tax in terms of a business's ability to pay or perhaps feel that it is possible to classify the rate of the tax in such a way as to approximate so-called ability to pay, this table should prove particularly interesting. It is obvious that there is a very great deal of variation not only between

major groups of businesses but within the major groups. In Table 7:9, the business tax is given as a percentage of the Ontario Corporation Income Tax. Again viewing this along with the previous table in the light of a business's supposed ability to pay, the variation in the ratios is such that it may be said that the business tax does not even come close to approximating the profitability of a particular class of business. If this is so with groups of businesses, the deviation from profitability for individual companies would be even greater.

Furthermore, the classification of the business tax would appear to do little or nothing toward making the business tax as a percentage of net profit for a particular business approximately the same. Despite the low rate of only 10 per cent, car parks have one of the highest group ratios of business tax to net profit or loss. Life insurance companies, which are subject to the 75 per cent rate, would appear to have a relatively high ratio of business tax to profit, while other financial institutions are considerably lower.

TABLE 7:7

SUMMARY OF QUESTIONNAIRES

Business Tax as a Percentage of Gross Revenues

Type of Business	*Number*	*Arithmetic means of ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Manufacturers					
Food and beverages	20	0.6	0.8	0.4	0.2
Rubber and rubber products	6	0.5	0.8	0.5	0.4
Leather and leather products	8	0.3	0.5	0.3	0.2
Textiles	10	0.5	0.7	0.4	0.2
Furniture and fixtures	16	1.1	0.5	0.3	0.2
Paper and allied products	21	0.6	0.6	0.5	0.3
Printing and publishing	15	0.6	0.5	0.3	0.2
Primary metal	7	0.3	0.4	0.3	0.2
Metal fabricating	119	0.5	0.5	0.4	0.2
Machinery	24	0.4	0.6	0.4	0.3
Transportation equipment	13	0.6	0.6	0.5	0.4
Electrical and electronic products	45	0.4	0.6	0.3	0.2
Non-metallic mineral products	13	0.4	0.5	0.4	0.3
Petroleum and coal products	4	0.3	0.4	0.3	0.3
Chemical and chemical products	43	0.4	0.5	0.4	0.3
Wood products	4	0.5	—	0.0	—
Other	19				
Total	387	0.5	0.5	0.4	0.2
Wholesalers					
Grocery and combination	8	0.1	0.1	0.1	0.1
Variety	3	0.3	0.8	0.1	0.0
Garage and motor vehicle	17	0.4	0.6	0.2	0.1
Hardware	5	0.6	1.2	0.3	0.2
Plumbing and heating	11	0.5	0.8	0.5	0.2
Electrical supplies and appliances	15	0.2	0.2	0.2	0.1
Electronic	5	0.2	0.3	0.2	0.2
Auto parts	8	0.4	0.6	0.4	0.3
Tobacco	13	0.3	0.4	0.1	0.1
Other	6				
Total	91	0.3	0.4	0.2	0.1

TABLE 7:7 (continued)

SUMMARY OF QUESTIONNAIRES

Business Tax as a Percentage of Gross Revenues

Type of Business	*Number*	*Arithmetic means of ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Retailers					
Grocery and combination	13	0.2	0.4	0.2	0.1
General	5	0.3	0.6	0.3	0.2
Department	11	0.5	0.6	0.4	0.3
Variety	4	0.8	—	0.6	—
Men's clothing	7	0.6	0.7	0.4	0.2
Women's clothing	4	1.3	—	0.5	—
Hardware	23	0.9	0.9	0.5	0.2
Furniture, appliances, radio, television	14	0.7	1.1	0.4	0.2
Other home furnishings	4	0.6	—	0.5	—
Drug	10	0.4	0.7	0.2	0.1
Automotive dealers	7	0.2	0.2	0.1	0.1
Lumber and building supplies	8	0.4	0.4	0.3	0.2
Camera	3	0.3	—	0.1	—
Feed	3	0.1	—	0.0	—
Other	12				
Total	128	0.6	0.6	0.3	0.2
Chartered Banks	8	1.5	1.1	0.8	0.6
Life Insurance Companies	50	0.5	0.6	0.4	0.2
Trust Companies	9	0.6	0.9	0.5	0.3
Investment Dealers	24	0.4	0.7	0.4	0.1
Stockbrokers	18	0.6	0.6	0.5	0.4
Radio and Television Broadcasters	24	0.3	0.3	0.2	0.1
Car Parks	7	2.1	3.0	1.7	1.5
Funeral Directors	57	0.5	0.6	0.4	0.3
Restaurants					
—alcohol and meals	6	0.4	0.7	0.3	0.2
—no alcohol	24	0.3	0.4	0.2	0.1
Total	30	0.3	0.4	0.2	0.1
Hotel and Motel					
—no alcohol	15	0.6	0.7	0.5	0.3
—<50% alcohol revenue	30	1.0	1.0	0.7	0.3
—50-75% alcohol revenue	44	0.6	0.8	0.6	0.5
—75-90% alcohol revenue	54	0.5	0.6	0.5	0.4
—>90% alcohol revenue	43	0.6	0.7	0.5	0.4
Total	186	0.6	0.8	0.5	0.4
Movie Theatres—gross	73	1.0	1.2	1.0	0.7
—net*	72	1.4	1.7	1.4	1.1

*excluding film rentals

TABLE 7:8

SUMMARY OF QUESTIONNAIRES

Business Tax as a Percentage of Net Profit/Loss

Type of Business	*Number*	*Arithmetic means of Ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Manufacturers					
Food and beverages	19	9.7	9.7	3.3	2.6
Rubber and rubber products	6	73.4	125.4	8.0	3.7
Leather and leather products	7	3.3	5.2	3.3	0.6
Textiles	11	8.2	12.6	4.2	2.6
Furniture and fixtures	17	19.2	14.5	6.0	2.6
Paper and allied products	22	6.2	6.8	4.9	1.9
Printing and publishing	15	8.9	16.4	5.7	2.7
Primary metal	7	6.5	7.3	2.6	1.4
Metal fabricating	131	14.8	6.4	2.8	1.2
Machinery	28	11.5	16.3	3.8	1.5
Transportation equipment	15	9.5	11.8	3.8	2.0
Electrical and electronic products	46	5.1	8.6	2.9	0.9
Non-metallic mineral products	15	74.2	3.5	1.7	(4.8)
Petroleum and coal products	4	4.4	6.2	3.8	3.2
Chemical and chemical products	48	4.9	5.8	3.4	2.1
Wood products	4	76.0	—	36.3	—
Other	23				
Total	418	13.7	7.9	3.6	1.9
Wholesalers					
Grocery and combination	8	15.7	14.8	6.4	1.9
Variety	4	4.6	26.4	4.1	(16.5)
Garage and motor vehicle	20	39.0	41.2	9.5	1.9
Hardware	7	16.0	24.1	19.7	6.7
Plumbing and heating	16	11.8	13.5	6.9	3.4
Electrical supplies and appliances	15	4.7	8.3	4.3	2.4
Electronic	5	7.3	15.1	3.6	1.6
Auto parts	9	92.5	28.6	14.6	7.5
Tobacco	13	17.6	14.3	7.6	5.2
Other	5				
Total	102	25.1	19.5	7.7	3.2
Retailers					
Grocery and combination	16	15.5	5.7	2.5	1.4
General	7	4.4	4.6	3.3	0.8
Department	16	22.2	16.8	11.0	7.9
Variety	5	9.1	14.4	11.5	2.7
Men's clothing	8	6.4	14.3	5.7	1.1
Women's clothing	4	5.7	—	5.4	—
Hardware	29	10.3	11.2	4.8	1.8
Furniture, appliances, radio, television	19	12.4	12.0	1.6	0.5
Other home furnishings	5	3.8	10.4	1.6	1.2
Drug	14	3.0	3.1	1.7	1.2
Automotive dealers	13	13.7	13.1	7.0	4.0
Lumber and building supplies	13	24.2	13.7	7.9	(3.4)
Camera	3	29.8	—	20.8	—
Feed	6	2.1	3.4	2.4	0.5
Other	15				
Total	173	10.9	11.4	3.7	1.6
Life Insurance Companies	23	23.3	37.5	11.0	0.7
Trust Companies	10	2.6	3.2	2.3	1.4

TABLE 7:8 (continued)

SUMMARY OF QUESTIONNAIRES

Business Tax as a Percentage of Net Profit/Loss

Type of Business	*Number*	*Arithmetic means of ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Investment Dealers	26	5.8	6.9	3.6	2.1
Stockbrokers	19	5.2	9.1	4.8	1.9
Radio and Television Broadcasters	24	3.2	4.1	1.8	0.5
Car Parks	6	26.1	108.6	25.6	(7.2)
Funeral Directors	60	4.2	5.5	2.6	1.6
Restaurants—Total	35	(38.3)	7.0	3.7	(1.6)
—alcohol and meals	6	4.5	15.3	3.2	(4.4)
—no alcohol	29	(47.8)	6.7	3.7	(3.9)
Hotel and Motel—Total	183	16.3	19.9	7.5	2.4
—no alcohol	14	(5.7)	20.8	5.4	1.6
—<50% alcohol revenue	30	20.8	34.5	13.3	3.8
—50-75% alcohol revenue	40	34.8	30.4	7.2	2.5
—75-90% alcohol revenue	54	11.9	14.9	7.7	2.3
—>90% alcohol revenue	39	5.4	17.6	6.6	1.4
Chartered Banks	8	8.5	12.7	5.5	4.0

TABLE 7:9

SUMMARY OF QUESTIONNAIRES

Business Tax as a Percentage of Corporation Income Tax

Type of Business	*Number*	*Arithmetic means of ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Manufacturers					
Food and beverages	19	106.6	159.3	47.7	23.4
Rubber and rubber products	6	367.4	795.4	97.1	42.1
Leather and leather products	7	50.5	68.1	43.4	33.8
Textiles	10	60.1	103.5	38.0	25.7
Furniture and fixtures	13	268.4	162.7	57.4	44.3
Paper and allied products	22	79.1	70.0	52.7	20.7
Printing and publishing	15	111.4	154.1	76.7	40.2
Primary metal	7	59.1	66.4	26.9	13.0
Metal fabricating	125	140.2	71.8	37.3	20.3
Machinery	27	104.4	149.4	55.4	28.1
Transportation equipment	14	52.0	42.4	32.2	22.2
Electrical and electronic products	42	94.0	116.6	34.9	19.0
Non-metallic mineral products	14	818.5	38.7	25.0	18.3
Petroleum and coal products	4	434.4	—	434.4	—
Chemical and chemical products	47	67.2	64.8	34.9	20.7
Wood products	5	—	—	7.0	—
Other	18				
Total	395	148.3	71.8	45.5	22.2

TABLE 7:9 (continued)

SUMMARY OF QUESTIONNAIRES

Business Tax as a Percentage of Corporation Income Tax

Type of Business	*Number*	*Arithmetic means of ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Wholesalers					
Grocery and combination	6	278.0	444.1	74.2	23.8
Garage and motor vehicle	15	116.0	166.6	31.4	16.2
Hardware	6	140.4	208.7	133.5	82.8
Plumbing and heating	15	133.1	140.0	69.3	36.4
Electrical supplies and appliances	14	67.9	77.9	49.5	21.0
Electronic	4	69.9	118.1	64.1	27.7
Auto parts	9	651.3	362.5	165.5	75.8
Tobacco	13	273.9	268.8	77.2	46.7
Other	6				
Total	88	268.0	465.6	74.9	28.9
Retailers					
Grocery and combination	5	315.2	760.5	23.0	16.1
Department	14	142.6	145.9	102.7	78.1
Variety	3	95.5	—	104.3	—
Men's clothing	5	95.6	135.6	106.9	49.9
Hardware	7	142.8	265.8	53.5	52.5
Furniture, appliances, radio, television	8	243.7	404.5	120.0	43.9
Drug	4	66.6	—	32.7	—
Automotive dealers	5	302.7	707.0	41.6	27.0
Lumber and building supplies	7	69.2	125.4	46.4	26.0
Other	12				
Total	70	153.4	138.6	78.9	31.7
Life Insurance Companies	23	293.9	405.3	223.9	80.4
Trust Companies	10	35.0	37.8	29.1	18.1
Investment Dealers	26	118.6	110.2	42.0	26.3
Stockbrokers	16	97.4	120.9	57.2	22.8
Radio and Television Broadcasters	23	49.6	32.9	18.4	11.2
Car Parks	4	627.9	—	473.4	—
Funeral Directors	29	48.7	59.9	26.5	14.9
Restaurants					
—no alcohol	16	495.8	1,246.0	29.1	13.8
Total	18	401.0	867.4	29.1	15.8
Hotel and Motel					
—no alcohol	3	452.7	—	513.1	—
—<50% alcohol revenue	15	614.4	530.0	226.5	68.5
—50-75% alcohol revenue	12	835.0	352.7	143.9	60.5
—75-90% alcohol revenue	13	270.4	248.1	105.8	89.8
—>90% alcohol revenue	8	111.3	210.6	73.1	29.9
Total	51	490.1	361.7	149.5	68.5
Chartered Banks	8	51.9	61.6	51.2	37.2

In Table 7:10 the business tax is shown as a percentage of rent paid. One might note that while there is a considerable variation from business to business the variation within the business seems to be much less than it is with some of the other ratios presented so far. The variation from type to type of business, of course, is influenced by the rate of the business tax. In fact, if you remove the influence of the business tax rate by dividing the figures by the rate, the adjusted figures show much less variation. The adjusted figures (which represent the property tax as a percentage of the rent paid) are as follows:

Manufacturers	20%
Wholesalers	19
Retailers	20
Banks	25
Life insurance companies	15
Trust companies	15
Investment dealers	16
Stockbrokers	21
Radio and television broadcasters	18
Car parks	35
Funeral directors	19
Restaurants	20
Hotels and motels	33

Using the information in Tables 7:6 to 7:10 along with the figure derived from the incidence as presented in the previous chapter, a calculation has been made to show the average burden of the business tax on certain classes of business. In making this calculation the average incidence of the business tax on the business itself was calculated by averaging the percentages of the business tax which would affect the profitability in the case of either an increase or a decrease in the tax but using only the long-run figures. The results are shown in Table 7:11. The figures, unfortunately, were available for only a relatively small number of businesses, but as may be seen there is a very considerable variation from business to business. Probably the most significant figures in this table are the burden of the business tax as a percentage of gross revenues and of rent paid. Keeping in mind the fact, already pointed out, that the business tax as a percentage of rent paid is influenced by the business tax classification, it is possible to convert the last column in Table 7:11 to estimate the burden of the property tax as a percentage of the annual rent paid. The figures are as follows:

Retailers	9%
Wholesalers	11
Life insurance companies	6
Trust companies	13
Investment dealers	15
Stockbrokers	20
Radio and television broadcasters	10
Funeral directors	3
Restaurants	8

TABLE 7:10
SUMMARY OF QUESTIONNAIRES
Business Tax as a Percentage of Rent Paid

Type of Business	*Number*	*Arithmetic means of ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Manufacturers					
Food and beverages	10	11.8	15.3	11.8	6.6
Rubber and rubber products	3	10.5	—	12.3	—
Leather and leather products	3	10.2	—	11.2	—
Textiles	5	14.7	22.4	13.9	8.7
Furniture and fixtures	4	13.8	15.8	13.4	12.2
Paper and allied products	4	14.8	21.3	14.5	8.7
Printing and publishing	7	8.7	11.3	8.2	7.0
Metal fabricating	40	16.2	18.8	11.6	8.6
Machinery	12	26.4	25.5	17.8	12.3
Transportation equipment	4	18.2	26.6	16.4	11.7
Electrical and electronic products	20	11.0	15.4	10.8	6.0
Non-metallic mineral products	3	6.9	9.0	8.0	3.7
Chemical and chemical products	11	11.0	12.9	11.9	7.6
Wood products	3	67.7	—	24.7	—
Other	11				
Total	140	15.3	16.3	11.8	8.1
Wholesalers					
Grocery and combination	4	21.7	37.1	15.4	12.1
Garage and motor vehicle	13	12.9	19.4	10.5	6.8
Plumbing and heating	8	14.5	20.3	14.6	7.7
Electrical supplies and appliances	10	13.4	17.1	13.1	10.7
Electronic	4	14.6	17.7	12.1	7.3
Auto parts	6	20.9	27.9	18.4	14.2
Tobacco	9	18.3	24.5	15.3	13.7
Other	6				
Total	60	15.4	19.0	14.4	10.4
Retailers					
Grocery and combination	5	7.3	9.9	6.9	5.0
Department	13	11.2	15.1	9.2	6.5
Men's clothing	6	14.8	20.7	12.3	6.9
Women's clothing	4	4.2	—	3.8	—
Hardware	13	8.6	13.9	6.0	4.3
Furniture, appliances, radio, television	12	7.6	9.8	7.9	5.7
Other home furnishings	3	8.7	—	9.4	—
Drug	13	4.5	5.3	4.4	3.6
Automotive dealers	10	9.0	10.9	8.6	6.8
Lumber and building supplies	4	18.5	—	19.7	—
Other	14				
Total	97	8.9	11.9	7.0	5.1
Chartered Banks	8	27.1	34.3	18.8	15.7
Life Insurance Companies	51	11.1	12.5	11.2	9.4
Trust Companies	9	13.1	15.8	11.3	9.1
Investment Dealers	31	12.6	14.5	11.9	9.5
Stockbrokers	23	13.7	12.0	10.5	7.4
Radio and Television Broadcasters	18	6.2	8.8	5.4	3.9
Car Parks	7	3.9	6.4	3.5	2.4
Funeral Directors	12	5.6	7.5	4.8	3.8
Restaurants					
—no alcohol	18	5.4	7.3	5.0	3.2
Total	20	5.6	8.1	5.0	3.7
Hotel and Motel					
—<50% alcohol revenue	3	9.6	—	8.3	—
—50-75% alcohol revenue	5	5.7	7.3	6.0	3.9
—75-90% alcohol revenue	10	8.0	9.5	8.6	5.8
—>90% alcohol revenue	8	9.5	10.8	7.8	5.2
Total	26	8.2	9.3	7.3	5.3

TABLE 7:11

BURDEN OF BUSINESS TAX ON CERTAIN CLASSES OF BUSINESS

Type of Business	Business Tax* as Percentage of:					Burden of Business Tax* as Percentage of:			
	Gross Revenue	Net profit/loss	Corporation income tax	Rent paid	Average incidence of tax on business owner	Gross revenue	Net profit/loss	Corporation income tax	Rent paid
Retailers	0.3	3.7	78.9	7.0	44%	0.13	1.6	34.7	3.1
Wholesalers	0.2	7.7	74.9	14.4	55	0.11	4.2	41.2	7.9
Life Insurance Companies	0.4	11.0	223.9	11.2	41	0.16	4.5	91.8	4.6
Trust Companies	0.5	2.3	29.1	11.3	87	0.44	2.0	9.8	9.8
Investment Dealers	0.4	3.6	42.0	11.9	94	0.38	3.5	39.5	11.2
Stockbrokers	0.5	4.8	57.2	10.5	94	0.47	4.5	53.8	9.9
Radio and Television Broadcasters	0.2	1.8	18.4	5.4	53	0.11	1.0	9.8	2.9
Funeral Directors	0.4	2.6	26.5	4.8	17	0.07	0.4	4.5	0.8
Restaurants	0.2	3.7	29.1	5.0	38	0.08	1.4	11.1	1.9

*Using medians of ratios.

In Tables 7:12 to 7:16 the various ratios presented earlier are given in a breakdown by the size of the business as measured by the total gross revenue. Figures were given only for those businesses with a sufficient number in each of the three categories of size to give the figures some value. In effect these tables confirm what was seen in the first section of this chapter: that the size of the company, although here measured by gross revenue rather than by total assets, seems to have relatively little to do with the various ratios.

In Appendix D to this report, the same ratios as are given in Tables 7:7 to 7:10 and 7:12 to 7:16 are repeated except that they are calculated using the business tax and the property tax together. To some extent a number of these statistics are questionable in view of the fact that the respondents to the questionnaires quite obviously did not give the property tax strictly applicable to the property on which the business tax was paid.

TABLE 7:12

SUMMARY OF QUESTIONNAIRES

Net Profit/Loss as a Percentage of Gross Revenues

Type of Business	*Average of Totals for Groups*		
	Largest	*Middle-sized*	*Smallest*
Manufacturers			
Food and beverages	4.1	9.0	7.4
Furniture and fixtures	5.6	2.8	5.4
Paper and allied products	17.2	21.3	6.9
Printing and publishing	14.0	12.3	2.6
Metal fabricating	8.7	7.0	4.6
Machinery	3.9	14.7	6.2
Electrical and electronic products	5.2	13.7	4.8
Chemicals and chemical products	14.9	9.2	7.7
Wholesalers			
Garage and motor vehicles	3.7	0.7	10.1
Electrical supplies and appliances	2.0	9.0	10.5
Retailers			
Grocery and combination stores	3.8	3.7	17.9
Hardware	(0.8)	7.5	26.4
Furniture, appliances, radio, television	3.5	10.9	12.4
Life Insurance Companies	1.9	1.2	(14.7)
Investment Dealers	1.2	6.4	(1.9)
Stockbrokers	16.4	11.7	13.7
Radio and Television Broadcasters	6.6	7.6	8.9
Funeral Directors	17.3	14.2	17.9
Restaurants—no alcohol	1.5	3.4	2.9
Hotel and Motel—no alcohol	4.4	9.2	16.6
—<50% alcohol revenue	5.2	5.0	5.2
—50-75% alcohol revenue	4.8	2.6	(1.8)
—75-90% alcohol revenue	1.0	6.8	7.9
—>90% alcohol revenue	6.7	2.2	6.1

TABLE 7:13

SUMMARY OF QUESTIONNAIRES

Business Tax as a Percentage of Gross Revenues

Type of Business	*Average of Totals for Groups*		
	Largest	*Middle-sized*	*Smallest*
Manufacturers			
Food and beverages	0.2	0.5	0.8
Furniture and fixtures	0.3	0.5	0.5
Paper and allied products	0.4	0.4	0.9
Printing and publishing	0.3	0.4	0.6
Metal fabricating	0.4	0.3	0.4
Machinery	0.4	0.5	0.6
Electrical and electronic products	0.2	0.4	0.4
Chemical and chemical products	0.3	0.3	0.4
Wholesalers			
Garage and motor vehicles	0.1	0.4	0.5
Electrical supplies and appliances	0.2	0.2	0.3
Retailers			
Hardware	0.3	0.4	1.4
Life Insurance Companies	0.5	0.2	0.1
Investment Dealers	0.02	0.3	0.7
Stockbrokers	0.5	0.7	0.5
Radio and Television Broadcasters	0.2	0.2	0.4
Funeral Directors	0.4	0.5	0.5
Restaurants—no alcohol	0.4	0.2	0.5
Hotel and Motel—no alcohol	0.6	0.4	0.9
—<50% alcohol revenue	0.6	0.7	0.6
—50-75% alcohol revenue	0.6	0.6	0.9
—75-90% alcohol revenue	0.5	0.6	0.6
—>90% alcohol revenue	0.5	0.6	0.6

TABLE 7:14

SUMMARY OF QUESTIONNAIRES

Business Tax as a Percentage of Net Profit/Loss

Type of Business	*Average of Totals for Groups*		
	Largest	*Middle-sized*	*Smallest*
Manufacturers			
Food and beverages	4.2	5.7	6.4
Furniture and fixtures	4.3	12.7	8.9
Paper and allied products	2.5	1.8	12.8
Printing and publishing	4.6	3.6	21.5
Metal fabricating	4.0	4.8	9.7
Machinery	9.2	4.0	5.3
Transportation equipment	2.7	3.4	5.8
Electrical and electronic products	3.3	3.1	7.3
Non-metallic mineral products	2.0	3.3	12.2
Chemicals and chemical products	2.0	4.4	5.1
Wholesalers			
Garage and motor vehicle	4.0	43.7	3.9
Plumbing and heating	6.2	9.6	3.2
Electrical supplies and appliances	8.3	1.9	2.6
Retailers			
Grocery and combination stores	6.3	7.7	1.5
Department stores	9.5	—	13.7
Hardware	213.5	5.4	5.4
Furniture, appliances, radio, television	22.3	5.2	3.8
Life Insurance Companies	25.0	15.8	(3.8)
Investment Dealers	1.9	4.9	27.7
Stockbrokers	2.8	5.9	4.2
Radio and Television Broadcasters	2.9	2.1	5.1
Funeral Directors	2.2	3.2	3.0
Restaurants—no alcohol	26.8	7.1	24.7
Hotel and Motel—<50% alcohol revenue	18.6	17.7	7.8
—50-75% alcohol revenue	12.5	27.5	(43.2)
—75-90% alcohol revenue	41.6	9.9	8.3
—>90% alcohol revenue	7.3	26.4	10.6

TABLE 7:15

SUMMARY OF QUESTIONNAIRES

Business Tax as a Percentage of Corporation Income Tax

Type of Business	Average of Totals for Groups		
	Largest	Middle-sized	Smallest
Manufacturers			
Food and beverages	47.5	53.4	36.2
Paper and allied products	21.2	21.0	107.7
Printing and publishing	42.1	40.7	176.9
Metal fabricating	40.0	41.1	70.0
Machinery	57.8	48.0	52.2
Electrical and electronic products	33.5	34.5	58.0
Chemicals and chemical products	26.4	37.8	47.7
Wholesalers			
Garage and motor vehicle	36.5	133.1	37.9
Plumbing and heating	56.3	74.3	28.4
Life Insurance Companies	271.7	141.2	1,625.5
Investment Dealers	18.7	45.5	113.6
Stockbrokers	41.0	75.9	20.5
Radio and Television Broadcasters	22.2	18.9	30.4
Funeral Directors	20.5	40.4	81.9
Restaurants—no alcohol	229.4	—	57.0
Hotel and Motel— <50% alcohol revenue	262.7	169.7	55.5

TABLE 7:16

SUMMARY OF QUESTIONNAIRES

Business Tax as a Percentage of Rent Paid

Type of Business	Average of Totals for Groups		
	Largest	Middle-sized	Smallest
Manufacturers			
Metal fabricating	11.5	15.6	12.3
Electrical and electronic products	9.4	11.5	11.8
Life Insurance Companies	10.5	12.7	12.4
Investment Dealers	13.1	13.9	12.2
Stockbrokers	10.7	11.0	10.4
Radio and Television Broadcasters	4.3	5.4	7.0
Restaurants—no alcohol	7.7	4.4	8.0

CHAPTER 8

Public Attitude to the Business Tax in Ontario

GENERALLY speaking, over the last sixty years there seems to have been remarkably little public criticism of the business tax as it is applied in Ontario. A number of reasons may be suggested for this, the chief of which is that the number of people in business for themselves who are aware of the tax is likely to be far fewer than those who are not. For those people who are in business for themselves and are not the employers of a great many people and who are in the practice of looking at most of the more important pieces of paper that come in to the business, there would be a reasonably good appreciation of the size and relative importance to the business of the business tax. Generally speaking, the larger the company and the greater the number of employees, particularly if this is associated without any increase in the number of locations, the more likely it is that the business tax is a subject that is at least coupled with the real property tax and may not receive the degree of importance that it should from the chief officers of the business. The relative simplicity and the widespread standardization of the Ontario business tax has a certain appeal to some businessmen, as well as to many municipal officials. Finally, there is still some truth in the old maxim that "an old tax is a good tax" and in fact the Ontario business tax has been around for such a long period of time with so few changes that businessmen have become accustomed to it, property values have become related to it, and possible losses or gains in capitalization of the value of the property due to the tax have long since been taken into account.

In view of all this it is rather interesting that there were so many references to the business tax in so many of the submissions to the present Committee, even by groups that might be assumed to have little or no interest in any change in the present tax. It might also be noted at this point that the Select Committee on The Municipal Act and Related Acts received briefs from a large number of municipalities, private organizations and individuals and also heard the views of many others who did not present formal briefs. Some of these touch on the business tax. Generally speaking, these briefs are from a different group than those presenting briefs to this Committee. In interviewing some organizations, there was some feeling that they had already expressed themselves to the Select Committee and saw no need to pursue the matter again.

First of all, a great many of the briefs undertook to point out that the Ontario business tax in its present form could not be justified on the grounds of either ability to pay or benefits received. Some of the briefs noted that the classification system may have at one time or another reflected the profitability with respect to the real estate occupied for the various businesses listed, but that it certainly did not now. Since the business tax was an addition to the property tax, the benefits-received justification required that a business receive benefits from the municipality over and above what would be normally covered by real property taxation. This has never been demonstrated. In fact, judging by the attempts of

municipalities to attract businesses, the opposite would appear to be true. But even if the benefits received by businesses exceeded those of the residential property owner, the classification certainly did not reflect the differences in the benefits which each type of business received. To sum up, most of the briefs roundly condemned the tax in principle and the system of classification in particular, describing the latter as arbitrary and discriminatory.

From this flowed a number of suggestions. Of the particular businesses or business associations that submitted briefs, I believe it would be fair to say that in making a number of recommendations they in fact were expecting limited, if any, relief, and that a halfway step in the right direction was better than nothing at all. It is apparent from the general condemnation on the basis of principle that these particular people would like to have the tax abandoned completely. Failing this, they would like to have the tax applied at a flat rate for all businesses. Failing this, they would like to have a restricted number of categories with a reduced range in the applicable percentages, such as was contained in the *Second Report of the Select Committee on The Municipal Act and Related Acts*. Failing even this, certain industries desired relief from the particularly high percentages applicable to their particular businesses, for example, the brewers, distillers, wholesalers, and life insurance companies.

In general, the briefs submitted by the associations representing municipalities and municipal officials were also quite critical of the tax. The Association of Ontario Counties, for example, recommended the elimination of the business tax simply on the grounds of general inequity. The revenue lost should, they suggested, be made up by an increase in the unconditional grants from the Province. The Association of Ontario Mayors and Reeves suggested that the classification should be revised having more regard to the ability of the taxpayer to earn and to pay the tax. The Association for Assessing Officers of Ontario was content to restrict the number of classifications and to reduce the range of the applicable percentages.

One large manufacturing company came out strongly for a business tax based on rental values at a flat rate. They considered this basis far more equitable and pointed to their own experience across the country as evidence. As to the practicability of such a basis, they argued that commercial property rents were usually easy to come by but admitted that rents of industrial property were less so. However, they felt in this latter case that there is always available some evidence of actual rents being paid and that this is better than trying to estimate the value of such properties. This argument is interesting in view of the fact that in many municipalities in Canada where rental values are used as a basis for the tax, if actual rents are not available the municipality often resorts to a simple percentage of the real property assessment. The brief pursues the point further by pointing out that the use of annual rental values as a basis for the business tax would force assessors to take this into consideration in their evaluation of business property for real property tax purposes.

The brief by the Research Committee of the Association for Assessing Officers of Ontario mentioned that they had studied alternative methods for assessing the business tax such as gross receipts or annual rentals and had

obtained considerable data from various municipalities. They had come to the conclusion that such bases did not yield much equity and that their application would appear to be too cumbersome or too costly for practical application. However, they felt that further research could be carried out in this respect. This comment is ambiguous in that it is not clear whether these criticisms are applicable to rental values or gross receipts, or both.

Some comment was made on the matter of the shifting of the tax. Most of the briefs, however, when the business tax sections are read along with the property tax sections, appear to suggest that the immediate taxpayer bears the brunt of the tax. In other words it would appear that most of those submitting briefs were impressed by the initial or short-run effects of the tax. The brief of the Association for Assessing Officers of Ontario suggests that the greatest part of the tax is passed on and becomes a hidden tax to the home owner. On the other hand the Canadian Manufacturers' Association's brief points out that the argument that because there is considerable shifting of the tax the effects on a particular business are negligible is an oversimplification which disregards the inequity of the tax.

Another brief points out that the extent to which the tax can be shifted to consumers is very definitely limited for manufacturers making products which are very competitive, or are for export. It also challenges the idea that the effect of business taxes is reduced in that they may be deducted from a firm's income for the purposes of computing income tax and hence the burden is partly borne by the higher levels of government or the citizens of Canada as a whole. This they regarded as an oversimplification.

Two of the briefs suggested that the business taxes of all municipalities be pooled. That is to say, the Province might levy the tax and then distribute the revenues to the municipalities on some basis such as population. This idea might also be extended to the real property taxes on business as well. In fact the brief of the Ontario Federation of Agriculture would appear to suggest this. The point is considered in the brief of the Association of the Assessing Officers of Ontario but is rejected on the basis that this would create political chaos, and that a more satisfactory solution could be found in a reorganization of the municipal structure in Ontario. I find it strange that they would believe the latter would create less political upset than the former.

In criticizing the business tax and its classification, a number of briefs suggested that the only way to tax on the basis of ability to pay would be to have a municipal income tax, but most of the briefs then went on to state that they would not welcome this.

Finally, a number of small points might be mentioned. One brief questioned why apartment buildings were not subject to the business tax while hotels and motels were. Another brief suggested that special treatment should be given those businesses with large capital outlays, particularly if they were subject to government regulations with respect to rates and plant construction. One brief contained a warning that if a classification system is to be used, then one discriminating against large businesses should be avoided since there was no evidence to indicate that the profitability in terms of the real property used varied as between different sizes of businesses.

CHAPTER 9

Summary, Conclusions and Recommendations

Summary of Findings

1. There is no doubt that the name "business tax" creates a great deal of confusion in the mind of the average person. I feel sure that a popular poll of the citizenry chosen at random would be in favour of such a tax without inquiring any further into its nature. The fact is, of course, that it does not apply even to all businesses, but only to those that occupy real estate. Even so, a tax on business has considerable appeal to many people who feel that they thereby escape the hand of the tax collector. They are not likely to consider too much the fact that the tax might be passed on to the public at large or that the effects of the tax may be such as to reduce employment, etc.

2. While the classification of rates was initially established to reflect the ownership of personal property, it is obvious that the amendments to the Act have not been made with this in mind. It is, of course, possible that the amendment allowing distillers distilling alcohol for industrial purposes to be assessed at 60 per cent instead of at 150 per cent might reflect a lower amount of personal property in view of the fact that distillers are involved in maintaining large stocks of their produce while it matures to be used for human consumption. However, I doubt that the reduction was allowed on these grounds. It is doubtful whether the rate applying to radio and television broadcasting stations was made after any investigation of the amount of personal property involved. Finally the tax applying to empty car lots would be zero should the original principle apply. In other words, the original meaning of the classification has been forgotten and I am aware of no other principle now employed.

The classification system has one peculiarity which I find quite strange and that is the establishment of a minimum assessment. Presumably it was felt that a small amount of tax was too much bother to collect. However, the effect of this would appear to be to make relatively small businesses subject to a rather high rate of tax assessment. One would have expected a minimum exemption instead. The Select Committee on The Municipal Act and Related Acts in its *Second Interim Report* recommended raising this minimum to $250. But the effect of such a recommendation would be to raise even higher the average rate of the tax applicable to small businesses.

3. The Ontario municipal business tax, while similar to such taxes elsewhere in Canada, can only be properly understood against its own historical background. It is, of course, true that the tax was introduced in Quebec and Manitoba before it made its real debut in Ontario, although Ontario municipalities had the option to use such a tax before it was introduced in Winnipeg. It is also true that the tax

was generally resorted to, in most municipalities as the result of financial need, often accompanied by a breakdown in the process of assessing and collecting taxes on personal property (that is, property other than real estate).

It is well established in the United States and Canada that local governments derive most of their revenue from taxes on capital. Undoubtedly this arose because of necessity as much as anything. The relative primitiveness of the economy precluded forms of taxes that might be applicable today. The ownership of capital usually meant that there were means to be taxed. Developments in the economy, the relative decline in the importance of real estate as a form of capital, the rise of new demands in a municipality by a developing economy, etc., have led and continue to lead to very great pressures on this form of taxation as the chief source of revenue for a municipality.

In Ontario, the history of municipal taxation in the nineteenth century could perhaps best be described as a retreat from the vague but inclusive attempt to tax all capital to the taxation of the most tangible and long-lasting items of capital. It is apparent that personal property owned by individuals, as distinct from corporations, was difficult to assess. It is apparent that machinery and many items in the hands of businesses were also not easy to assess. By the end of the last century, municipalities were apparently taxing capital and income only where it was possible to do so. The Assessment Act of 1904 was in large measure, therefore, a rationalization of the situation as of that date. Personal property in the hands of individuals was made free of tax. The taxes on personal property owned by businesses were converted to a form of surcharge on the ordinary real estate tax. Businesses that were capital-intensive (e.g., most public utilities) were, generally speaking, dealt with separately and in a manner probably considered appropriate for the time. Rather than tax telegraph and telephone companies on their equipment, the concept of taxing on the basis of gross turnover was introduced. The railways, on the other hand, were made subject to an increased provincial mileage tax which was turned over to the municipalities until it was later abolished in 1952. Similarly, pipe lines have been dealt with in a special manner.

While the classification of the Ontario business tax is said to reflect the position of various businesses *vis à vis* their liability to personal taxation at the time of the enactment of the original legislation, it is possible that it also reflects some liability to municipal income tax as of that date. Regardless whether the classification and the applicable rates that were arrived at were reasonably correct or not, the fact remains that the business tax is, in essence, a tax on capital and represents a tax on that capital which a business might ordinarily be expected to own considering the nature of the business over and above that capital in the form of real estate.

It would appear to me that any attack upon the tax in total or in any of its manifestations must first be mounted on the historical nature of the tax itself. That is to say, the critic must be prepared to prove that the tax does not represent the capital of the business over and above real property. There is no doubt that this to my mind could be easily proved. There are tremendous variations in the capital usage of firms in the same general line of business. This variation may be said to be compounded if it is viewed regionally, for there is no doubt that businesses in different locations will use different proportions of "personal"

capital to real estate. For example, a wholesaler close to his main sources of supply need keep a stock much lower than a wholesaler in a remote area. Furthermore, the evolution of the economy—the very fact that undermined the use of capital as a tax base for the municipalities in the nineteenth century—is still going on. Personal property takes different forms, business relationships change, business methods improve. Thus, it would be surprising if the rationalization of 1904 now bore any relationship to the situation existing today.

It may be argued that while historically business assessment represented some approximation of the appropriate capital assessment, over the years this idea has been forgotten and the tax is now regarded as nothing more or less than an additional property tax levy on business property. The tax itself and the classification of the tax must then be justified on entirely different grounds. At this point the two "basic" principles of equity in taxation may be invoked but, to my mind, they both fail. It has already been argued that in the long run a business as such has no such characteristic as ability to pay.

In the short run, ability to pay may mean little more than the relationship of the tax to the over-all cash flow of the business. This may be viewed by some people as indicating ability to pay but in fact it does not. Despite all this, the evidence suggests that there is a wide variation in profitability of businesses, whatever basis of profitability one may choose to use. If, when critics say that the business tax does not reflect ability to pay, they mean that it does not approximate net profit as results, say, from the application of the principles in the federal Income Tax Act) they are undoubtedly correct, but one must go further and say that no classification of the tax will ever achieve this even in an approximate way.

Should one invoke the principle of benefits received as a defence of the present Act, one must, at a minimum, be prepared to show that the business taxes themselves represent payments for benefits that the business community as a whole receives directly from the expenditures of the municipality over and above what it pays for in its real property taxation. Such a view falls short of the concept, often employed, that the business community should pay for the simple benefits it receives as a member of the municipality. This I must consider irrelevant in any consideration of the equity of the tax. All businesses, organizations and people derive indirect benefits from all other businesses, organizations and associations. On the other hand, the statement does not restrict the concept to the benefits received by any one particular business from the expenditures of the municipality.

I have not uncovered any evidence to support such a demonstration. In fact, most evidence would tend to suggest that a municipality would appear to benefit from the possession of business real estate assessment. That is to say, the cost of servicing the business community would appear, generally speaking, to be less than the amount of taxes collected from it. This is almost evident by definition since for most urban municipalities one-third of the total revenue goes for education and this expenditure is not directly of benefit to business property owners. In any case, should one demonstrate that the business community did in fact impose upon the municipality costs that could not be recovered through real estate taxation, it would follow that the extent to which this was true would vary from

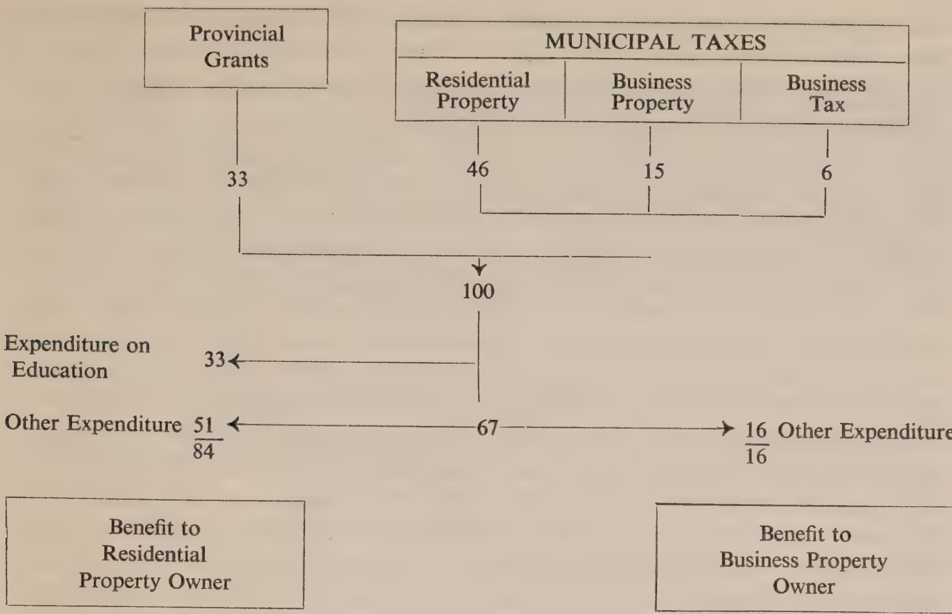
municipality to municipality. Thus, each municipality would have to be reasonably free to establish an appropriate rate of business tax.

4. In many respects the history of the development of municipalities in Ontario has been similar to that elsewhere in Canada and in the United States. Over the course of the last one hundred years, municipalities have been faced with added responsibilities and the performances of their accustomed services on ever rising standards. This trend has not been accompanied by any invention of a tax source suitable for carrying these added responsibilities. This problem is not new: the history of Ontario municipal financing shows that it goes back a very long way indeed. The emergence of the business tax in 1904 may be viewed as a device to underpin the municipal financial system and secure a sound and continuing source of revenue which incidentally would not appear to bear too directly on the individual home owners of the various municipalities.

The fact nevertheless remains that the real problem may well be not the lack of an appropriate municipal tax source but the saddling of municipalities with responsibilities which, at the very least, they should not be required to finance.

This is an old story, but its full consequences are not often appreciated. Probably one of the most neglected aspects is that a continuing tax on capital has the effect of reducing the value of that capital. For example, a rate of 60 mills on a house which is valued at, say, one-third of its present market value, has, at a rate of interest of say 6 per cent, the effect of reducing the house value by an amount of approximately one-third of its market value. Should this annual tax be spent in such a way that in the long run the property in the municipality benefited by its expenditure, then one might well assume that the loss in the capitalization of the tax will be offset by the capitalization of the benefits which accrue. If, however, the taxes are used for purposes that do not directly benefit the property owner in the long run, individually or as a group, then there is a definite net loss to the property owner.

If you split property owners into residential and business and if you divide municipal expenditures that are of benefit to these two groups between them, putting aside what is not of direct benefit to them as a group, then, in view of the fact that education can be regarded as being of direct value only to the residential property owners taken as a whole, the application of the same tax rate to both types of property will result in business property subsidizing residential property. If you are prepared to equate provincial grants to the municipalities as the shouldering of some of the benefits provided by the municipality but accruing to the residential property owner (education), then the distribution of benefits and taxes between business and residential owners would be brought closer into line. The following diagram is based on figures which are not atypical of an average urban municipality in Ontario today. The diagram ignores small detail and assumes for the moment that all municipal expenditure is of benefit to business or residential property taken as a whole. Furthermore it assumes that the direct benefits of municipal expenditure accrue to residential and business property as groups in proportion to their assessment. This is not necessarily so.



Under this simplified situation, it is apparent that only if you grant that the municipality does not have expenditures that are not of advantage to the property owners will the property owner hope to bring the loss of value on his capital in line with the addition of value due to municipal expenditure. It is also apparent that the business tax tips the scales in this respect against the business property owner. (The shifting of the tax, or the source of the provincial grants as long as these are not financed by real estate taxes, is irrelevant to this consideration.)

One can only conclude that while there may be a number of residential owners who receive direct benefit from municipal expenditures in excess of the taxes on the property, there is likely to be also a substantial number and possibly a majority who, in effect, lose on this basis. There is no doubt as far as business properties are concerned that the loss is probably greater and probably more widespread. The business tax undoubtedly acts to worsen the position of business property owners since the business tax is a tax on capital and as such will tend to reduce the value of the property. By changing the nature of the business or by the cessation of active business operations, the tax situation of a particular property may change, but this is not likely to occur to any great extent. The greatest possibility for this to happen would appear to be in the use of office space and, to some extent, retail store space.

5. There is no doubt that the municipal business tax is an important source of revenue to Ontario municipalities taken as a whole. It is of much greater importance to the large urban municipalities than to the rural municipalities. However, the rigidity of the tax and its application makes for a number of inequities between municipalities. Some municipalities have few businesses while others have a great many. On the other hand, some municipalities have businesses

that are classified at relatively low rates while others are classified at relatively high rates. This obviously means that since all municipalities are forced to apply the tax and since relatively no variation is allowed between various types of municipalities, the immediate burden the municipality places on the residential taxpayer can vary quite considerably—and quite fortuitously. In Chapter 5 of this study, it was noted that a relatively high proportion of municipal tax revenue coming from business had the effect of partly reducing the taxes on households and partly permitting a higher level of municipal services to be performed. Thus, there would be a considerable advantage in being a residential property owner in a municipality with a large business property and business tax assessment. Undoubtedly, many municipalities, given the opportunity, would choose to establish rates other than the present ones in order to improve their situation. (This would not necessarily mean an increase in the rates. As was mentioned in the *Second Interim Report* of the Select Committee referred to above, there would appear to be some municipalities that applied the tax at a lower rate than called for in The Assessment Act.) The important point of this, however, is that the business tax is considered an additional source of revenue to the municipalities wherewith to meet their great responsibilities. The haphazard distribution of business among the municipalities of Ontario would make this a rather poor general source of revenue, particularly if the increased responsibilities are for services unrelated to business as such.

6. If you consider Chapters 6 and 7 of this study, which deal with the significance of the business tax to various businesses, it is apparent that the present Ontario municipal business tax lacks any focus of logic. If it is true that by virtue of the business tax, businesses pay for benefits for which they would not otherwise pay, then the classification of the tax and the incidence of the tax are relevant considerations. If it is argued that there are elements of municipal expenditure that are of an "onerous" nature and that should be financed by a tax based on ability to pay, again the classification of the tax and the possibilities of shifting are relevant considerations. If the idea is to tax in a rough sort of way all capital, then the classification system is significant but so also is the exemption of an equivalent rationalization of the tax as far as residential property owners are concerned. If the idea is to make the people in a particular municipality pay for the services provided by that municipality, then it would appear best to tax more heavily those businesses that sold to local residents and were able to pass on the bulk of the tax to them. On the other hand, if it is the intention that the various Ontario municipalities should try to live at the expense of the people outside Ontario, then a different classification might be employed. If it is the intention to tax the business itself (i.e. the owners), it would appear that there is no discernible pattern that could be used to establish a system of classification either by type of business or by size of business that could accomplish this end.

7. The argument that the extent to which a business pays a business tax is diminished by the effects of the corporate income tax should not be accepted without some reservations. The strongest reservation in this respect, I believe, is that the business tax would bear quite heavily upon the marginal company that is

barely making ends meet and is, therefore, subject to little if any corporate income tax.

8. Finally, two minor facts might be noted. First it would appear that the business tax as a source of revenue relative to the real estate tax is more important to Ontario municipalities than it is for municipalities in other parts of the country, with the possible exception of a few cities that use the tax in the Atlantic provinces. Second, in view of the fact that a great deal of the business tax in Ontario is raised from manufacturers, it is quite likely that the actual burden of this tax to some extent is being passed on to the citizens of other provinces.

CONCLUSIONS

There is no doubt that the system of classification used in the application of the Ontario municipal business tax makes little sense at it now stands. It can no longer be defended on the basis that it represents personal property of businesses since the conditions of the business world have changed vastly since the Act was passed in 1904. Furthermore, many of the amendments to the Act do not follow this as a guiding principle but appear to have been made on the basis of expediency. The classification system also fails on the basis of the principle of ability to pay, although I consider this irrelevant. The classification system can hardly be justified on the principle of benefits received in that it has yet to be demonstrated even for the business community as a whole that it receives any benefit over and above those that it pays for in its ordinary real estate taxation. Considered from the point of view of equity in terms of the principle enunciated in Chapter 1 of this study, that is, that taxpayers similarly situated should pay the same tax, the classification system also fails.

If you put the matter of the present classification to one side, problems still remain with respect to the equity of the business tax. The present classification system simply adds to the inequities inherent in the tax.

A tax on capital may be considered fair game for the tax collector. As long as you are prepared to tax all capital, you may be reasonably equitable in the broad sense in which I believe the above principle should apply. However, I think that it is almost axiomatic that once you reduce the area of application of a tax then the inequity of the tax increases. The restriction of the annual tax on capital to real estate and the conversion of the personal property of business to a real estate base involve to my mind considerable diminution in equity.

While equity is an important aspect of taxation, it certainly is not the only one that must be considered. In fact, depending on how desperate the financial situation is, other tests may well be more important. There is no doubt that the Ontario business tax has, as far as the municipality is concerned, a number of advantages. It is simple to apply, assess and collect. It has been dependable and reliable and a fairly productive tax for those municipalities that have a reasonable amount of business properties. Generally speaking the yield of the tax can be calculated within fairly narrow limits and thus the certainty of the revenue has been quite high. It is a relatively easy tax for most of the people concerned to understand (apart from the principles underlying it). The taxpayer knows where

he stands as soon as the real estate assessment has been established. As far as convenience of payment is concerned, it is in the same category as the real estate tax itself. The tax has been in operation in Ontario for sixty years and this in itself is of some advantage. A businessman knows where he stands; much of the losses that result from the inability to shift the tax have long since been absorbed; the bad economic effects have been taken into account. For what it is worth, the saying "an old tax is a good tax" does have some significance.

As far as adequacy is concerned, the fact that the rate system is applied province-wide will reduce the extent to which a particular municipality can make the tax an adequate source of revenue. Furthermore, because of the existence or the lack of business real estate within a municipal boundary and the possible variation in the over-all effective rate of the classification which may obtain, the value of the tax to any one municipality can vary tremendously, and certainly not in any relationship to the need of the particular municipality.

The argument is frequently made that in this very complex world the average man has become far too removed from the association of the benefits of government activity and the revenues required to pay for them. In more specific terms the argument is continued that if the taxpayer were able to see exactly how much a government service actually cost him he would be in a much better position to assess whether he really wants it. To some extent this argument is true but it is probably much less true at the municipal level than at the provincial or federal level. The average municipal citizen is usually very much more aware of what the municipality is doing and if he is a property owner he is more likely to be aware of how much is coming out of his pocket. On the other hand the services provided by the federal government, for example, are not so tangible or so easily observable by the average taxpayer, and by virtue of a tax system that rests heavily on sales taxes, corporation taxes and personal income taxes which are deducted before receipt of income, the federal tax burden appears a rather shadowy thing.

This greater awareness on the part of the municipal taxpayer is due partly to the fact that taxes that fall on capital probably arouse the greatest response from the taxpayer. They are often regarded as an incursion into what a person has put to one side probably at great effort. Many people, rightly or wrongly, regard any diminution of their capital as economically sinful. Most taxes on capital are paid out of income, but should the income fail then the only recourse is to diminish the capital. Taxes on income or consumption are less likely to be viewed so emotionally in view of the fact that the tax liability occurs because of the fact of gaining or spending.

The point of the argument is this. I believe that, for the proper functioning of any government, the government should have at its disposal sources of revenue such that, taking them as a whole, the taxpayer is only moderately sensitive to their impact on him. If the system is such that he is too insensitive, then the government may undertake a number of foolish projects. On the other hand, if the system is such that he is too sensitive, then the government is likely to be hampered by being found to be penny wise and pound foolish. I believe that many of the municipalities in Canada have suffered a great deal in the past because of the unusual sensitivity of the public to municipal real estate taxes. Many municipal

councils have not done things that would have been of real and lasting benefit to their citizens or have undertaken to perform work at relatively low standards, because of the fear of alienating the taxpayer at election time. I would suggest under these circumstances that the municipalities have suffered from the fact that one of their major sources of revenue fell upon the citizens in such a way as to make them overly sensitive to the level of government expenditure. The business tax could then have some advantage to the municipality in view of the fact that it would provide a less sensitive source of revenue to the municipal government.

Of course, there have been other factors at work to reduce the sensitivity of the average municipal elector. There has been the extension of the franchise from land owners to tenants, and by and large tenants are not aware of the municipal tax burden they bear. Furthermore, there has been a growing tendency for municipalities to require payment of their taxes over the year in several instalments. Finally the great growth of the practice of including the property taxes with the first-mortgage payments on new houses has also tended to make the municipal tax less obvious to the average home owner.

The importance of considering the equity of a tax is relative to the rate at which the tax is applied. In view of the fact that the Ontario tax is, in effect, a surcharge to the real estate tax and considering that in many, if not most, municipalities, the real property tax in relation to market values is a significant ratio, and considering also that the surcharge is a not insignificant proportion (averaging 46 per cent), I am forced to the opinion that equity must be regarded as an important consideration in evaluating the business tax in general, or in any of its specific aspects. I believe that it is second only to the paramount need for revenue.

While I have stressed the matter of inequity in the tax I would not like to create the impression that it is such that there is widespread suffering as a result of the tax. I do believe that some businesses suffer unduly and that the tax may well be part of the cause of some businesses' failing. However, I consider the most important aspects of the inequity of the tax to be the tendency to distort business decisions with respect to location, nature and size of premises, employment, etc. These are virtually impossible to determine or assess. Perhaps the only example one can point to in Ontario is the relative decline of the wholesaler, and the assumption by manufacturers of the wholesaling function. While other factors are undoubtedly at work in this example, the relative decline in the economic importance of the wholesaler has made it more difficult for some small manufacturers to get adequate and economic distribution for their wares.

VARIATIONS AND ALTERNATIVES TO THE ONTARIO MUNICIPAL BUSINESS TAX

The first choice to consider, of course, is between the maintenance of a business tax in one form or another and its replacement by some other source of revenue. The merits of the business tax have already been outlined in this study and going over them again serves no purpose. A consideration of the choice between continuing with the tax and using a substitute really involves a consideration of whether a business tax altered to meet the disadvantages is superior to a

conceivable alternative. It is necessary then to proceed with an examination of possible changes in the present tax.

Maintenance of the Present Base

The present base of the Ontario municipal business tax—a proportion of the real property assessment—has a number of advantages to both taxpayers and tax collectors. It is simple and easily understood. The main consideration to deal with, therefore, is whether the system of classification should be changed or entirely eliminated. As far as changing it is concerned, the chief objection to my mind is that I cannot state any principle that would be applicable in terms of the criticisms that have been made. It is true that the Select Committee on The Municipal Act and Related Acts came up with a suggestion for a simpler classification system. However, before making this suggestion it noted: "Perhaps the right solution would be the elimination of the business tax but the problem then arises of raising the revenue thus lost."[1] No enunciation of principle was included in the recommendation, so one is forced to the conclusion that the simplification was either a retreat from the onslaughts of certain businesses which felt they were unduly taxed, or a first step toward complete elimination of the classification; the latter being politically or economically dangerous to effect too quickly.

The complete elimination of classification would have two important results. First of all if some over-all percentage—say 40 per cent—were to be used, then a number of businesses would find themselves at some further disadvantage while others would be better off. The number who would face increased taxation as a result of this would be greater than those who would have their taxes reduced, apparently by a ratio of two to one. There is also the possibility that those businessmen whose taxes would be increased might be more potent politically at the local level than those whose taxes would be reduced.

Elimination of the classification of the business tax would raise the question of the position of those businesses that have been dealt with separately up until now. For example, should one assume that the standard rates for assessing pipe lines include a proportion that represents the business tax liability? If so, then it would be appropriate to review those rates. Further, the question of taxing telegraph and telephone companies on the basis of gross turnover would also have to be reviewed. It is not quite clear whether this tax on gross turnover is in fact a business tax. The ordinary real estate of such companies is subject to the business tax at the rate of 25 per cent. The tax on gross turnover may well be a special tax. If it is, then this tax may well be reviewed since it is discriminating against a particular industry. If, on the other hand, the gross turnover tax is considered to be a substitute for the business tax, the question arises whether it can be so modified as to be brought into line with a common over-all business tax percentage. In view of the ambiguity in the assessment legislation concerning the taxation of machinery, it might be arguable that all machinery that is not an integral part of a building should be considered exempt. There would then appear to be no justification for the present tax on the gross turnover of telephone and telegraph companies.

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[1] *Second Interim Report*, p. 58.

As far as railways are concerned, the early exemption of properties used for actual railway operations may have been justified on the basis of the substitution of the increased provincial mileage tax. Since this has now disappeared it would appear on the surface that the railways are exempt from the business tax. There is no obvious reason why they should be, unless one feels that the ordinary assessment of railway property is inherently biased against the railway. That is to say, it is extraordinarily difficult to get a suitable basis for the evaluation of railway land. The present approach, which would appear often to result in an over-assessment of the land, may perhaps be an argument in favour of allowing the railways to be exempt from the tax. In any case, shifting to a standard rate would raise the question of how the railways should be treated. A compromise might be to apply the standard business tax rate but to assess railway right-of-way at a nominal amount.

Other Bases for the Tax

The municipal business tax is one of the few taxes that can be applied on several different bases. It is presumably possible to come up with an endless number of such bases, but for the purposes of this study I intend to consider only three: annual rental value, area and gross turnover.

Annual rental value of business property is probably the most common basis for the tax as it is employed outside of Ontario, especially in the larger centres. Annual rental value requires no classification, although a classification system is used in Winnipeg. The classification system used there, however, strikes me as having less logic in it than the present classification used in Ontario. Assessments based on annual rental value are, of course, not necessarily those actually paid by tenants, but the actual rent would be a consideration in the making of the assessment. As a result, the person paying a business tax on such a basis has a much stronger basis for appeal than he has for one based on a proportion of the real estate tax.

For practical application, it is necessary to define exactly what is meant by annual rental value. For example, consideration must be given to whether the rent should include such things as the cost of providing heat and other services necessary for the use of the premises. The intent of the assessor in establishing annual rental value must be to obtain what might best be called a normal value for the particular premises taking into consideration such factors as size, location, suitability, etc. and that such normal rents be on a par with the going rents in the particular municipality.

Stated thus, it is apparent that it does not make any difference whether the business property is leased or owned. The great difficulty in the use of annual rental value arises in attempting to establish the annual rental value for business properties that have peculiar characteristics. Commercial properties, as a rule, do not involve much difficulty since there is in most municipalities an established market. To a lesser extent the same is true for light industry. The problems arise with large and complicated industrial plants, and large, often one-of-a-kind business properties in municipalities such as the leading hotel, etc. For these there is a tendency to establish annual rental value in terms of a percentage of

the assessed real estate value. There is, of course, some danger in legislation that permits this in that a lazy assessor or a municipality that has many peculiar business properties may be inclined to establish all annual rental values in terms of a fixed percentage of the assessment of the properties for real estate tax purposes. This would mean that the tax would be no different from the basis now used in Ontario.

There are some advantages in the use of annual rental value as opposed to a proportion of the real property assessment as a basis for the business tax, but to my mind they are not compelling. The main advantage would appear to me to rest on two facts. First, the rental value of a property tends to indicate the capacity of a business premise to earn income. The extent to which this is true, to my mind, depends entirely upon the general supply of business premises. Second, rental values are more easily kept up to date and are therefore more likely to fluctuate with market conditions than assessment based on real property. Thus in periods of inflation or deflation the business tax assessment is more likely to be up to date. Keeping these points in mind, one might consider the fact that over the useful life of a building, the capital value will tend in general to decline at a faster rate than rental value. This phenomenon may be seen clearly in the relatively high rents that owners often obtain for slum properties. This being so, rental value as a proportion of capital value may be expected to increase over the life of the building. It further follows that a rental value type of business tax would bear more heavily on business premises that are nearing the end of their useful economic life. This might suggest that the occupiers of poor property would thereby be more heavily taxed. However, one should keep the first point mentioned above in mind—that the rental value probably does approximate to some extent the capacity of the use of the property to earn an income.

The significance of this possible variation between capital value and rental value depends, of course, on the extent to which rental values may be taken into consideration in establishing the capital value for real estate purposes. Capitalized rental value should bear a relationship to the market value of the property; thus the distinction will depend very greatly upon the methods of assessment used. The fact that rental values can be kept up to date more easily than property values may also be due to the artificiality of the present method of assessing property for real estate tax purposes.

To my mind, the advantages of annual rental value as a basis for the business tax would appear to arise mainly from difficulties, perhaps inherent, in establishing and keeping up to date the property tax assessment. It has been argued that one of the values of rental value as a basis of the business tax is the fact that the assessor would be required to get more information on rents and that these would influence his property tax assessments. While this may be true, this is still a criticism of the present approach to assessing real estate. It remains a simple fact that a business tax assessed with reference to the property tax assessment is essentially a less expensive tax to administer than one based on rental values. Furthermore, where the business tax assessment is based on the property tax assessment there is, in practice if not in theory, a likelihood of friction arising over the determination of the particular business tax for any given year. When annual rental value is used as a basis, it may not be appropriate simply to add this assessment to the

total real estate assessment in order to strike a common rate for the whole municipality.

Nevertheless, in correspondence with a number of the people involved in the application of the business tax outside the province, such as various of the city assessors, the opinion seemed to be overwhelmingly in favour of a business tax based on annual rental values. However, these people noted that the use of such a base did increase the burden upon assessors, which could be a very difficult matter for small municipalities to overcome.

There is an incidental advantage in the use of annual rental values in Ontario if it should be considered wise to abandon the present system of classification. If a change in base were to be made at the same time, it might not be so easy to calculate the number of people who would benefit and the number who would lose out and thus the change might be politically expedient.

It should be noted that the use of annual rental value as a basis for the business tax introduces a complication with respect to establishing the rate. When property value is used as a base the same rate can be applied to both the real property assessment and the business assessment, but this is not possible with annual rental value. This leads to a number of possibilities. First of all, each municipality could be left to establish its own rate. This would permit considerable variation over the province. It would also permit considerable scope to the municipality to shift the over-all burden of municipal taxes either in favour of or against business. The extent to which this could occur might not be of long-run advantage to the raising of municipal revenues. A second possibility is for the Province to establish one rate for all the municipalities. It would not be necessary to change this rate since it could be assumed that the annual rental valuation would be continuously reviewed. However, for those municipalities that rested more heavily on business property for which annual rental values were not easily obtained, the fixing of such a rate might cause some hardship. A third possibility would be to construct a formula applicable to all municipalities which in effect translated the annual rental value to a capital basis comparable to the property value so that the total annual rental valuation could be added to the real property assessment for the striking of an over-all mill rate and the rate to be applied to the annual rental value could be calculated from the over-all mill rate. This strikes me as being a particularly clumsy approach and the possibility of developing a single formula which could be used equitably by all municipalities strikes me as being remote. This problem of establishing the rate has not arisen in those centres in Canada that use annual rental values largely because the tax, or the particular tax base, is not applicable to all municipalities in the particular province. To my mind, this problem in itself is sufficient to offset much of the advantage this base might have over the base presently being used.

Turning now to the *area* of business premises as a basis for the business tax, it should be noted from the outset that such a system of absolute necessity requires a classification system of a fairly extreme type. To my mind, this is sufficient to dismiss the basis as a possible alternative to the present Ontario system. However, it might be noted that as far as the small municipalities are concerned it has the very great advantage of simplicity. Furthermore, the peculiar

disadvantage of the tax, that the use of the same rate per square foot applied throughout a municipality may lead to inequities because of the location of the premises (downtown versus the suburbs), does not apply to any extent in the small municipality. However, I doubt that for the small municipality in Ontario area would be any simpler than the present basis.

Gross turnover as a basis of the business tax is used in the City of Saint John, New Brunswick, although it is restricted to the wholesale and retail merchants. On the surface there may be a great deal to be said for the use of such a base. First of all, it gives the municipality a tax based not on capital but on turnover, although the turnover is not necessarily up to date. It meets one of the difficulties of the business tax assessed on any of the three previously noted bases and that is the inequity which arises from the under-assessment of businesses that carry on mail-order operations in small municipalities. Of course as far as the mail-order house is concerned this may not be an inequity at all, in view of the fact that they would pay correspondingly heavier business taxes at the centre where their mail-order business was finally handled. Local merchants, of course, feel that a mail-order store is able to compete more effectively because of the relatively low business tax liability. But it should also be kept in mind that such establishments usually consist of a counter with little or no display of goods, and this surely affects their competitive position.

The major disadvantage of using gross turnover as a base arises from the consideration of whether it is necessary to classify the rate of the tax in order to take into consideration the varying mark-ups applied by various businesses. If one should accept the idea that it should be so classified then one must face the problem of establishing the customary mark-up in any particular line of business. For some businesses, particularly the professions, there is no such thing as a mark-up in the usual sense of the term. The results of the questionnaires sent out by this Committee are relevant at this point. It might be noted that the present business tax in relation to gross revenue would appear to be in the neighbourhood of about ½ per cent. There appeared to be relatively little variation from business to business except that for car parks, chartered banks, and movie theatres the average percentages were distinctly higher, that for car parks being 1.7 per cent. These are notable in view of the fact that car parks bear the lowest rates (10 per cent), movie theatres a relatively low rate (25 per cent), and banks a high rate (75 per cent). If a tax of, say, ½ per cent were to be established across the board it would not appear to me to be particularly inequitable. In fact, it would appear to give some relief to the car parks and movie theatres, which now appear to be somewhat more heavily burdened when measured on these terms.

A more difficult objection to gross turnover rises in my mind when you consider what should be included in gross turnover. Should you include for any one particular municipality the business done in that municipality by the business located there or should you include all the business revenue regardless of source? This is particularly important with respect to manufacturing companies. It would appear that if the intention is to make the tax a suitable source of revenue for the municipality, then all turnover regardless of source should be included. This

is parallel to the present system of taxing the whole business premise, not just the portion pertaining to the municipality in which it is located. Nevertheless, such an approach runs into a number of problems. First there is the business that has revenue from a non-recurring source. Second there is the business that has a major continuing source of revenue quite unrelated to the nature of the establishment located in the particular municipality. Third there is the branch plant whose revenue may not be easily determined in that its production is destined for further production in another plant, transfer to another division of the company, etc., the transfer being effected at some artificial price.

Then there is the problem, in a sense almost the reverse of the manufacturer, that is to be seen in the present tax on the gross turnover of the telegraph and telephone companies in Ontario. The fact that such companies maintain a very large number of offices means that they have to make a very large number of returns and that the great bulk of the returns are for extraordinarily small amounts. In the submission of the Canadian National Railways it was stated, for example, that 53 per cent of the total of such taxes paid in Ontario was paid in Metropolitan Toronto and a further 38 per cent was paid in twenty-four other cities. Payments to the villages averaged $14.00 per village. It is apparent from such information that the payment of the tax must be unduly expensive for the company paying the tax.

Over and above all this, however, there is the question of whether a tax based on gross turnover could be legally implemented at the present time taking into regard the various tax agreements between the provinces and the federal government.

A business tax based on gross turnover would have many of the aspects of a retail sales tax; the main difference being that it would not be evident to the purchasers of the goods and services. Further, the tax would apply at all levels of transfer of goods, not just when goods were sold to the final user. I do not think that it would be necessary to use a classification of business to make such a tax base work. Apart from possible constitutional problems, the main difficulty to my mind would appear to be that of establishing gross turnover in such a way that it would be possible for all the municipalities in Ontario to apply the tax. For this reason I believe that this base would not be a satisfactory alternative to the present base.

Pooling of the Business Tax

It has been suggested that because of the variation in the location of businesses among the various municipalities in Ontario, the business tax, at least, should be collected by the provincial government and distributed through the municipalities on some basis such as population. There would appear to be some value in this suggestion, although obviously those municipalities that now depend on a heavy business tax assessment would suffer and it would be necessary to perhaps introduce some other—perhaps transitional—measure of compensation. If this were done, conditions in those municipalities with more than the average business tax assessment would remain unchanged, while those municipalities with below average business tax assessments would gain some advantage. I am not sure whether this

advantage would accrue necessarily in the fairest way in that some of the municipalities in the province lack business assessment by deliberate choice, being—or trying to be—high-class residential centres.

The idea of pooling taxes may be taken to the point of pooling both the business tax and the real property tax on business and distributing it to all municipalities. While this thought is no doubt based on the idea that the services provided by a municipality can only be adequately financed if there is business real estate assessment to tax, it overlooks the fact that the existence of businesses in a municipality does involve expenditures on the part of that municipality. While it may be that the revenues from business exceed the cost of servicing the business, there is no means of estimating the degree to which this is true in general or for any one particular municipality. It also overlooks the point that, for what it is worth, the relative absence of business in a municipality may be of considerable value to the residential owners. This is particularly true for those municipalities which are in effect high-class residential communities.

Pooling of business taxes raises the question of whether this should be done by simply pooling the business taxes as they are now assessed and collected by the various municipalities or by the Province's applying a province-wide rate. The latter suggestion raises some further questions. If the business tax were to remain more or less in its present form, then a province-wide tax rate would mean that the business tax would be levied at a different rate from the tax on business real estate. Since such a rate would have to be fairly close to that of the largest municipalities, it would follow that for many of the small municipalities there would be a substantial increase in the business tax. Furthermore, such a method of pooling would involve a province-wide standard quality of assessment. Another question that would have to be decided is whether the municipal government or the provincial government would be the actual collector of the tax. It would be simpler to have the municipalities collect the tax and turn it over to a provincial authority, but this might well have some distasteful political overtones at the municipal level.

Since such a pooling arrangement would have as its main consequence the provision of additional funds to those municipalities now lacking business assessment, and since it is unlikely that this could be achieved at the expense of those municipalities that have above average business assessments, it would seem to me a much simpler approach for the provincial government to provide a grant system recognizing a deficiency of business assessment in a particular municipality.

A variation of the pooling concept could arise in the future if it should be deemed wise to establish a number of super-municipalities or regional governments for the administration of certain functions now being carried on by the present municipalities. Such regional organizations might well have as one of their sources of funds the business tax, more or less in its present form. They would be responsible for the assessment and collection of the tax and the revenues could be used for services over the whole region. Since such a change would involve the relief to the municipalities of the carrying out of certain municipal functions, it would be possible to take away a revenue source such as the business tax without

creating undue hardship. At the same time it would also be possible for each of these regions, or super-municipalities, to levy a rate appropriate to its own situation.

Municipal Freedom

One of the criticisms that may be made of the present system of business tax assessment in Ontario is that it is particularly rigid in its application to all municipalities. It may be worth while to consider the relaxation of some of these requirements.

First, should municipalities be allowed to elect whether or not to use the municipal business tax as a source of revenue? The chief argument against allowing discretion in this manner is that it prevents competitive bidding by municipalities for the establishment of businesses within their municipal boundaries, which in the long run is probably self-defeating. Further, there is the possibility of inequities arising because similar or competing businesses may be located fairly close to one another and yet be in different municipalities and one or the other may be subject to business tax. Nevertheless the *Second Interim Report* of the Select Committee on The Municipal Act and Related Acts notes that a few municipalities were deliberately setting their business tax at lower rates than called for in the Act. This would indicate that some would desire perhaps not to have the tax at all.

A similar area of freedom is involved in the consideration whether a municipality should be allowed to vary the proportion applicable to the real property assessment. This may be viewed from the point of view of maintaining the relative relationship of various businesses in a classification system but varying the rates as a group; or allowing municipalities to employ different systems of classification. Generally speaking, such freedom is subject to the same comment as was made in the previous paragraph. As far as freedom to employ their own system of classification is concerned, since the present classification system does not appear to be particularly logical and there would appear to be no easy way to derive a system with some logical basis, it would not appear to me to be appropriate to allow the municipalities this freedom. If, however, there were a flat rate instead of a classified system the question might still remain whether a municipality should be allowed to vary the applicable rate. It is of interest to note that this is allowed in the proposed revision of the business tax outlined in the Michener Report for Manitoba. If the limits are to be relatively narrow, say between 40 and 50 per cent, then any freedom would be of relatively little importance. On the other hand, if the degree of freedom is very wide then it again becomes subject to the considerations mentioned above.

One might also consider allowing the municipalities to give complete exemptions to certain businesses, but this too is open to some criticism, again on the same grounds.

Exemptions

As was noted earlier in this study, the total exemptions to the business tax are relatively few. The question may be raised whether there should be any or, on the other hand, whether the number should perhaps be increased. As far as reducing the number of exemptions is concerned there is obviously little scope. The main

businesses now exempt from the tax are the railways, agriculture, and certain residential accommodation for rent such as apartment blocks, rooming houses, etc. With respect to railways and pipe lines it is possible that the exemption is really covered by other liability under The Assessment Act. As far as agriculture is concerned, it is extremely doubtful from a political point of view whether this exemption should or could ever be eliminated. And as far as rental residential accommodation is concerned, there may indeed be a case for eliminating exemption in view of the fact that the property is being used for a business purpose which would be the sole requirement to attract liability for the tax for any other type of business.

I can see no reason to extend exemptions to any other businesses. The basis for such a move is usually to reduce or remove obvious inequities. But there is a very great danger in extending exemptions of actually increasing inequity although it may not be too obvious at the time. Nevertheless one exemption that might improve the tax from the point of view of equity would be the introduction of a fixed basic exemption to the business tax in the form of a dollar amount. Such an exemption would be extended to all businesses. It would benefit primarily very small firms and to some extent marginal firms. In considering the information available on the characteristics of the business firms, it would appear that such a suggestion might be worth while. However, such an exemption would entail some problems. First, it would be best to apply the exemption to all businesses; thus if the exemption is of significant size it might relieve many businesses such as people in professional or semi-professional groups unduly. Second, it may be that a standard amount of exemption would have to vary between municipalities since in the small communities the cost of obtaining business premises would generally be less than in the larger municipalities. The latter point probably could be overcome by actually providing a scale based upon a periodic survey of the cost of business premises in various localities, although such an exercise may involve more work than it is worth. The first problem is somewhat more difficult to deal with particularly if you assume that such an exemption might unduly benefit some businesses that could well afford to pay the tax, such as doctors. This objection, however, is based on distinguishing between businesses as to their ability to pay tax. As has been pointed out before the business tax cannot be made to do this without an extraordinary system of classification and exemptions, etc. The fact that the exemption might benefit some people who it is felt could well afford to pay the tax should not be considered as a real objection to the idea of such an exemption.

Alternatives to the Business Tax

The main alternative to the business tax is its complete elimination. This involves some method of restoring to the municipalities the revenues which would otherwise be lost. This could conceivably be undertaken in the form of a provincial grant, but it seems to me this would be hard to justify since the only conceivable grounds could be that the provincial government sources of revenue have less inequity than a business tax. The replacement of the business tax with another tax collectible at the municipal level is very unlikely in view of the fact that a search for such a tax has been going on for many years not only in Canada but in

the United States and has met with no success as far as I am aware. This then raises the question of whether the business tax may be replaced by a tax provincially collected and especially earmarked for distribution to the various municipalities. In this respect the only tax that would appear to be suitable would be an additional levy on the present provincial retail sales tax. The distribution could conceivably be made on the basis of collections. In view of the fact that all of the collectors of the provincial retail sales tax are registered, the allocation of the tax on this basis should not be difficult to achieve. However, the distribution on the basis of retail sales is not necessarily appropriate as far as the revenue needs of the individual municipalities are concerned. Other methods of distribution can be envisaged, but these tend to destroy the concept of a municipal tax. The whole operation might just as well be considered another grant from the provincial treasury.

RECOMMENDATIONS

After examining the nature of the present Ontario business tax and considering various changes and alternatives, I have reached the conclusion that by and large the tax is a reasonably good source of municipal revenue and that its use should be continued. However, I believe the tax as it stands at present has two important shortcomings which could be remedied. First, I feel that the present system of classifying businesses is illogical and possibly harmful and since I can think of no alternative superior system of classification or indeed any convincing argument in favour of classification I would recommend that the classification be abandoned entirely. In view of the fact that this would raise the tax for a number of businesses I suggest that a basic exemption be given to all businesses to reduce the impact of the tax on very small or marginal businesses. I found that a standard rate of 50 per cent for the business tax coupled with a basic exemption of $50 in Metropolitan Toronto and all cities in the province and of $30 for the remaining municipalities would produce about the same revenue as is produced by the present tax. Such a formula results in individual variations that are mostly within 10 per cent of the present revenue.

The second shortcoming is of lesser importance. The present imposition of the tax in its very rigid form allows no municipal freedom and does not allow local councils sufficient scope to make their taxes more adaptable to individual municipal needs. I recommend, then, that the municipal councils be allowed to vary the rate of the tax from a minimum of 25 per cent to a maximum of 60 per cent and the exemptions mentioned above become mandatory for tax rates over 40 per cent.

Should these recommendations or some variant of them be accepted I would suggest that the municipalities be required to make public the annual yields of the tax and that these figures be shown in the *Annual Report of Municipal Statistics* published by the Ontario government.

Appendix A

Rates of Business Assessment

A. *Assessments Based on Proportion of Real Property Assessment*		*General Rate*	*Special* Rate*
Section		%	%
9(1) (a)	Distiller	150	—
	Alcohol for industrial purposes	60	—
9(1) (b)	Brewer	75	—
	Malting house	60	—
9(1) (c)	Wholesale merchant	75	—
	Insurance company	75	—
	Loan company	75	—
	Trust company	75	—
	Express company carrying on business on or in connection with railway, steamboats, sailing or other vessels	75	—
	Land company	75	—
	Loaning land company	75	—
	Bank or banker	75	—
	Other financial business	75	—
9(1) (d)	Chain of more than five retail stores, distribution, etc., premises	75	—
9(1) (e)	Manufacturer	60	—
9(1) (f)	Department store where the assessed value of the premises exceeds $20,000	50	—
	Retail coal, fuel oil, wood or lumber dealer	50	—
	Retail coal or fuel oil dealers		
	Cities of 100,000 and over	—	30
	Lithographer	50	—
	Printer or publisher except the publisher of a newspaper	50	—
9(1) (g)	Barrister, solicitor, notary public, conveyancer, physician, surgeon, oculist, aurist, medical, electrician, dentist, veterinarian, civil, mining, consulting, mechanical or electrical engineer, surveyor, contractor, builder, advertising agent, private detective, employment agent, accountant, assignee, auditor, osteopath, chiropractor, massagist, architect and subject to subsection 10, every person carrying on a financial or commercial business or any other business as agent	50	—
	where person mentioned above uses premises partly for business and partly for residence	30	—
9(1) (h)	Operator of a radio or television broadcasting station or publisher of a newspaper		
	All cities	—	35
	Municipalities other than cities	—	25
9(1) (i)	Retail merchant		
	Cities of 50,000 or over	—	25
	Cities or towns of 10,000 or over	—	30
	All other municipalities	—	35
9(1) (j)	Flour miller producing an average of less than 50 barrels a day	35	—
9(1) (k)	Telegraph or telephone company, transportation system (as defined), transmission of water, steam, heat, or electricity for light, heat or power	25	—
9(1) (l)	Transporting, transmitting or distributing by pipe line (as defined)	25	—

*Special rates are ones that vary according to the size of the municipality.

Appendix A—(Continued)

RATES OF BUSINESS ASSESSMENT

Section		General Rate	Special* Rate
A.	*Assessments Based on Proportion of Real Property Assessment*		
		%	%
9(1) (m)	Supervised car park	10	—
9(7)	Garage business and supervised car park—premises occupied and used as supervised car park	10	—
9(1) (n)	Photographer, theatre, concert hall, skating rink or other place of amusement, boarding stable, livery, letting of vehicles or other property for hire, restaurant, eating house, house of public entertainment, hotel or motel	25	—
	Any business not specifically mentioned before in this section	25	—
9(4)	Proprietory or other club in which meals are furnished	25	—
9(8)	Minimum assessment	$100	
B.	*Assessments Based on Gross Receipts*		
10(1)	Telephone companies		
	Cities of 100,000 or over	—	75
	Other cities, towns, villages, and police villages	—	60
10(7)	Telegraph companies		
	Cities, towns, villages and police villages	50	—
C.	*Assessments Based on Other Bases*		
10(3)	Telephone companies (in townships only)		
	1st circuit, per mile		$135.00
	Other circuit, per mile		7.50
10(4)	Local telephone companies (in townships only)		
	1st circuit, per mile	$50.00	
	Other circuits, per mile	7.50	
10(8)	Telegraph companies (in townships only)		
	1st circuit, per mile	$40.00	
	Other circuits, per mile	5.00	
10(10)	Railway companies (in townships only)		
	When not used exclusively for railway purposes, each circuit per mile	$ 5.00	

*Special rates are ones that vary according to the size of the municipality.

Appendix B—1

RANGE OF NUMBER OF BUSINESSES AND BUSINESS TAX ASSESSMENTS BY GENERAL RATE CATEGORY

METROPOLITAN TORONTO

	Lowest	1st Quartile	Median	3rd Quartile	Highest
Number of Assessments					
Minimum $100	0.0	0.2	1.2	4.7	11.8
10%	0.0	0.0	0.0	0.1	1.3
50% of 30%	0.3	1.7	2.6	3.6	7.6
25%	44.7	56.2	61.4	62.8	65.0
30%	0.0	0.2	0.3	0.5	0.8
35%	0.0	0.0	0.2	0.3	0.7
50%	12.1	16.0	19.4	22.2	22.9
60%	2.2	8.3	8.9	12.8	16.0
75%	2.6	4.7	5.9	7.6	9.8
150%	0.0	0.0	0.0	0.0	2.1
Other	0.0	0.0	0.0	0.0	3.3
Taxable Assessment, Lands and Buildings					
Minimum $100	0.0	0.0	0.0	0.0	0.1
10%	0.0	0.0	0.0	0.1	2.5
50% of 30%	0.1	0.2	0.5	0.8	4.0
25%	16.1	30.5	32.9	38.1	63.1
30%	0.0	0.0	0.1	0.3	1.0
35%	0.0	0.0	0.0	0.1	1.4
50%	4.2	11.4	14.8	17.1	19.6
60%	3.5	36.7	42.9	47.1	71.2
75%	2.4	3.6	5.3	10.6	17.8
150%	0.0	0.0	0.0	0.04	8.5
Other	—	—	—	—	—
CITIES					
Number of Assessments					
Minimum $100	0.1	3.7	6.2	7.6	18.0
10%	0.0	0.1	0.2	0.3	1.1
50% of 30%	0.0	0.3	1.45	3.9	6.7
25%	15.1	23.6	30.1	35.6	59.8
30%	0.0	22.7	28.4	34.1	41.2
35%	0.0	0.2	0.3	0.4	0.8
50%	16.7	19.7	21.3	22.6	30.5
60%	2.0	5.1	6.0	7.2	13.2
75%	3.4	4.8	5.3	6.1	8.7
150%	0.0	0.0	0.0	0.0	0.1
Other	—	—	—	—	—
Taxable Assessment, Lands and Buildings					
Minimum $100	0.0	0.0	0.1	0.1	0.9
10%	0.0	0.0	0.1	0.3	0.7
50% of 30%	0.0	0.0	0.4	0.5	0.8
25%	8.6	20.6	25.8	41.2	58.4
30%	0.0	8.2	17.0	20.9	35.4
35%	0.0	0.5	0.6	0.8	1.2
50%	7.8	9.9	11.7	16.2	24.2
60%	7.0	24.3	34.1	45.0	61.2
75%	2.7	3.8	5.0	6.5	16.4
150%	0.0	0.0	0.0	0.0	4.5
Other	—	—	—	—	—

Source: Questionnaires returned to the Select Committee on The Municipal Act and Related Acts, 1962.

Appendix B—2

RANGE OF NUMBER OF BUSINESSES AND BUSINESS TAX ASSESSMENTS BY GENERAL RATE CATEGORY

SEPARATED TOWNS

	Lowest	*1st Quartile*	*Median*	*3rd Quartile*	*Highest*
Number of Assessments					
Minimum $100	0.0	0.8	3.1	4.4	16.7
10%	0.0	0.0	0.0	0.0	0.0
50% of 30%	0.0	0.0	0.0	2.8	13.5
25%	3.7	21.6	21.7	34.3	40.2
30%	0.0	0.0	29.8	38.2	76.8
35%	0.0	0.0	0.0	38.6	43.6
50%	4.9	9.3	14.1	19.1	21.5
60%	3.7	5.0	6.1	6.9	7.3
75%	1.5	1.7	1.9	3.5	3.7
150%	0.0	0.0	0.0	0.0	0.0
Other	—	—	—	—	—
Taxable Assessment, Lands and Buildings					
Minimum $100	0.0	0.0	0.1	0.2	0.9
10%	0.0	0.0	0.0	0.0	0.0
50% of 30%	0.0	0.0	0.0	1.0	1.8
25%	7.0	7.9	14.4	26.9	32.7
30%	0.0	0.0	29.0	30.0	39.7
35%	0.0	0.0	0.0	20.3	34.4
50%	1.2	1.6	4.5	8.9	19.4
60%	15.7	37.6	38.8	43.7	67.9
75%	1.4	2.2	2.7	4.0	4.1
150%	0.0	0.0	0.0	0.0	0.0
Other	—	—	—	—	—

TOWNS OVER 5,000

	Lowest	*1st Quartile*	*Median*	*3rd Quartile*	*Highest*
Number of Assessments					
Minimum $100	0.0	4.1	5.9	8.5	21.3
10%	0.0	0.0	0.0	0.0	0.4
50% of 30%	0.0	0.0	1.1	3.4	12.8
25%	8.6	26.1	28.2	31.7	40.6
30%	0.0	0.0	0.0	25.8	36.8
35%	0.0	0.0	29.9	35.0	60.3
50%	8.9	14.1	17.7	19.8	31.8
60%	1.3	5.4	6.5	8.7	17.6
75%	0.7	2.2	2.8	4.1	6.1
150%	0.0	0.0	0.0	0.0	0.0
Other	—	—	—	—	—
Taxable Assessment, Lands and Buildings					
Minimum $100	0.0	0.0	0.1	0.2	8.6
10%	0.0	0.0	0.0	0.0	0.2
50% of 30%	0.0	0.0	0.2	1.1	4.8
25%	5.6	17.2	19.0	25.8	53.7
30%	0.0	0.0	0.0	15.0	30.9
35%	0.0	0.0	17.1	22.0	39.1
50%	2.7	5.6	9.3	11.2	20.3
60%	2.5	34.9	45.5	51.4	83.3
75%	0.4	2.4	3.4	3.9	8.5
150%	0.0	0.0	0.0	0.0	0.0
Other	—	—	—	—	—

Source: Questionnaires returned to the Select Committee on The Municipal Act and Related Acts, 1962.

Appendix B—3

RANGE OF NUMBER OF BUSINESSES AND BUSINESS TAX ASSESSMENTS BY GENERAL RATE CATEGORY

TOWNS UNDER 5,000

	Lowest	*1st Quartile*	*Median*	*3rd Quartile*	*Highest*
Number of Assessments					
Minimum $100	0.0	4.9	7.2	15.5	36.4
10%	0.0	0.0	0.0	0.0	5.6
50% of 30%	0.0	0.0	0.0	2.1	10.0
25%	20.9	26.0	34.3	41.6	82.2
30%	0.0	0.0	0.0	0.0	9.5
35%	0.0	25.7	32.7	37.3	50.0
50%	0.0	7.5	12.4	16.7	31.7
60%	0.0	2.7	5.0	6.5	29.4
75%	0.0	1.4	2.3	3.8	18.2
150%	0.0	0.0	0.0	0.0	0.7
Other	0.0	0.0	0.0	0.0	7.4
Taxable Assessment, Lands and Buildings					
Minimum $100	0.0	0.0	0.4	0.9	8.7
10%	0.0	0.0	0.0	0.0	2.5
50% of 30%	0.0	0.0	0.0	0.5	6.4
25%	2.9	22.6	33.2	45.0	78.4
30%	0.0	0.0	0.0	0.0	13.0
35%	0.0	18.8	26.6	35.4	82.0
50%	0.0	2.4	5.3	8.1	17.1
60%	0.0	5.5	16.6	36.8	94.6
75%	0.0	0.9	2.6	5.2	14.1
150%	0.0	0.0	0.0	0.0	48.1
Other	0.0	0.0	0.0	0.0	4.5
VILLAGES					
Number of Assessments					
Minimum $100	0.0	7.6	12.4	18.7	39.1
10%	0.0	0.0	0.0	0.0	80.0
50% of 30%	0.0	0.0	0.0	1.5	15.9
25%	0.0	27.6	36.0	45.6	96.8
30%	0.0	0.0	0.0	0.0	12.1
35%	0.0	21.6	29.7	37.7	100.0
50%	0.0	1.3	7.1	12.6	26.2
60%	0.0	0.4	3.1	5.0	20.0
75%	0.0	0.8	1.5	3.0	5.4
150%	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	6.0
Taxable Assessment, Lands and Buildings					
Minimum $100	0.0	0.0	0.5	3.6	24.6
10%	0.0	0.0	0.0	0.0	100.0
50% of 30%	0.0	0.0	0.0	1.1	17.2
25%	0.0	27.4	37.2	50.4	99.5
30%	0.0	0.0	0.0	0.0	32.3
35%	0.0	12.2	32.1	42.2	100.0
50%	0.0	0.5	3.9	7.0	61.0
60%	0.0	0.1	5.4	16.9	80.2
75%	0.0	0.4	1.9	3.6	7.1
150%	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	8.4

Source: Questionnaires returned to the Select Committee on The Municipal Act and Related Acts, 1962.

Appendix B—4

RANGE OF NUMBER OF BUSINESSES AND BUSINESS TAX ASSESSMENTS BY GENERAL RATE CATEGORY

TOWNSHIPS, 5,000 AND OVER

	Lowest	1st Quartile	Median	3rd Quartile	Highest
Number of Assessments					
Minimum $100	0.0	4.6	8.2	13.7	42.1
10%	0.0	0.0	0.0	0.0	0.1
50% of 30%	0.0	0.0	0.0	0.0	6.4
25%	23.4	33.0	39.8	51.6	79.1
30%	0.0	0.0	0.0	0.0	5.1
35%	8.2	18.0	25.9	30.1	39.1
50%	0.0	4.1	10.2	17.6	23.9
60%	0.0	3.5	5.9	9.8	16.8
75%	0.0	0.8	2.1	2.6	6.4
150%	0.0	0.0	0.0	0.0	0.5
Other	—	—	—	—	—
Taxable Assessment, Lands and Buildings					
Minimum $100	0.0	0.0	0.2	0.4	7.9
10%	0.0	0.0	0.0	0.0	0.1
50% of 30%	0.0	0.0	0.0	0.0	2.4
25%	7.3	29.5	41.3	54.1	87.7
30%	0.0	0.0	0.0	0.0	4.1
35%	3.9	9.0	16.2	27.0	38.7
50%	0.0	1.9	4.8	9.9	27.7
60%	0.0	6.2	15.3	39.6	78.9
75%	0.0	0.6	1.5	2.9	7.3
150%	0.0	0.0	0.0	0.0	35.5
Other	—	—	—	—	—
IMPROVEMENT DISTRICTS					
Number of Assessments					
Minimum $100	0.0	0.0	0.0	15.2	33.3
10%	0.0	0.0	0.0	0.0	0.0
50% of 30%	0.0	0.0	0.0	0.0	0.0
25%	0.0	35.2	44.8	66.7	100.0
30%	0.0	0.0	0.0	0.0	4.2
35%	0.0	16.3	24.8	33.3	55.6
50%	0.0	0.0	5.1	17.4	33.3
60%	0.0	0.0	2.0	6.5	11.6
75%	0.0	0.0	4.9	8.3	14.3
150%	0.0	0.0	0.0	0.0	0.0
Other	—	—	—	—	—
Taxable Assessment, Lands and Buildings					
Minimum $100	0.0	0.0	0.0	0.9	21.6
10%	0.0	0.0	0.0	0.0	0.0
50% of 30%	0.0	0.0	0.0	0.0	0.0
25%	0.0	8.3	51.3	87.0	100.0
30%	0.0	0.0	0.0	0.0	3.4
35%	0.0	2.9	13.4	14.5	57.5
50%	0.0	0.0	2.4	17.0	28.6
60%	0.0	0.0	2.1	15.1	96.7
75%	0.0	0.0	0.3	4.6	9.6
150%	0.0	0.0	0.0	0.0	0.0
Other	—	—	—	—	—

Source: Questionnaires returned to the Select Committee on The Municipal Act and Related Acts, 1962.

Appendix B—5

RANGE OF NUMBER OF BUSINESSES AND BUSINESS TAX ASSESSMENTS BY GENERAL RATE CATEGORY

TOWNSHIPS UNDER 5,000

	Lowest	*1st Quartile*	*Median*	*3rd Quartile*	*Highest*
Number of Assessments					
Minimum $100	0	0	12.5	28.0	100.0
10%	0	0	0	0	37.5
50% of 30%	0	0	0	0	35.5
25%	0	23.7	39.5	57.1	100.0
30%	0	0	0	0	50.0
35%	0	11.1	25.0	38.9	100.0
50%	0	0	0	6.3	40.0
60%	0	0	3.3	7.9	33.3
75%	0	0	0	0	14.3
150%	0	0	0	0	7.1
Other	0	0	0	0	61.5
Taxable Assessment, Lands and Buildings					
Minimum $100	0	0	0.6	4.0	100.0
10%	0	0	0	0	35.9
50% of 30%	0	0	0	0	55.7
25%	0	21.8	42.6	62.4	100.0
30%	0	0	0	0	80.0
35%	0	7.0	20.1	43.2	100.0
50%	0	0	0	2.6	55.6
60%	0	0	2.4	20.9	91.4
75%	0	0	0	0	25.0
150%	0	0	0	0	0.3
Other	0	0	0	0	88.7

Source: Questionnaires returned to the Select Committee on The Municipal Act and Related Acts, 1962.

Appendix C—1

COEFFICIENTS OF DETERMINATION (r^2) FOR CERTAIN CHARACTERISTICS OF ONTARIO MUNICIPALITIES 1962

(r^2 represents the proportion of variation in the dependent variable explained by association with the independent variable. r^2 cannot exceed 1 or —1)

	Classes of Municipalities															Rural Townships	
Dependent and Independent Variables Correlated	*All Municipalities*	*All Urban*	*All Rural*	*All Cities excluding Toronto*	*Towns and Villages over 5,000*	*Towns and Villages under 5,000*	*Improvement Districts*	*Towns, Villages & Townships in Counties*	*Towns, Villages & Townships in Districts*	*All Municipalities over 40,000 Population*	*All Municipalities 40,000-20,000 Population*	*All Municipalities 20,000-10,000 Population*	*All Municipalities 10,000-5,000 Population*	*All Municipalities 5,000 to 2,000 Population*	*All Municipalities under 2,000 Population*	*In counties*	*In districts*
Per-capita Business Tax Assessment and																	
Per-capita total assessment	.21	.39	.08	.91	.39	.22	.82	.13	.38	.83	.23	.78	.37	.20	.16	.08	.17
Per-capita tax revenue	.16	.19	.06	.39	.27	.07	.65	.13	.36	.25	.22	.78	.46	.27	.07	.05	.21
Per-capita total revenue	.08	.13	.02	.19	.24	.06	.05	.04	.19	.18	.26	.35	.02	.18	.04	.01	.10
Proportion of business tax assessment to total assessment	.32	.44	.33	.53	.78	.31	.89	.42	.36	.61	.74	.67	.89	.75	.31	.32	.58
Percentage rate of business tax assessment	.10	.14	.04	.39	.51	.08	.62	.09	.05	.27	—.00	.38	.24	.15	.06	.06	.08
Earnings: per wage earner	—	.10	—	.07	—.00	.10	.22	—	—	—.02	—.14	.00	.00	—	—	—	—
per capita	—	.18	—	.06	.00	.18	.04	—	—	—.01	—.00	.16	.02	—	—	—	—
per household	—	.15	—	.06	.00	.16	.06	—	—	—.01	—.01	.01	.01	—	—	—	—
Per-capita Tax Revenue and																	
Percentage rate of business tax assessment	.01	.03	.00	—.00	.04	—.00	.27	—.00	.05	.00	—.11	.05	—.00	.00	.00	—.00	.07
Earnings: per wage earner	—	.20	—	.04	.04	.19	.45	—	—	.06	.00	.01	.02	—	—	—	—
per capita	—	.35	—	.08	.05	.29	.24	—	—	.10	.01	.21	.11	—	—	—	—
per household	—	.22	—	.05	.02	.17	.25	—	—	.11	.12	.01	.19	—	—	—	—
Proportion of business tax assessment to total assessment	.07	.03	.01	.17	.09	—.00	.65	.14	.10	.17	.03	.49	.36	.13	.00	.02	.04

Appendix C—2

COEFFICIENTS OF DETERMINATION (r^2) FOR CERTAIN CHARACTERISTICS OF ONTARIO MUNICIPALITIES 1962
(r^2 represents the proportion of variation in the dependent variable explained by association with the independent variable. r^2 cannot exceed 1 or —1)

Dependent and Independent Variables Correlated	Classes of Municipalities																
	All Municipalities	*All Urban*	*All Rural*	*All Cities excluding Toronto*	*Towns and Villages over 5,000*	*Towns and Villages under 5,000*	*Improvement Districts*	*Towns, Villages & Townships in Counties*	*Towns, Villages & Townships in Districts*	*All Municipalities over 40,000 Population*	*All Municipalities 40,000-20,000 Population*	*All Municipalities 20,000-10,000 Population*	*All Municipalities 10,000-5,000 Population*	*All Municipalities 5,000 to 2,000 Population*	*All Municipalities under 2,000 Population*	*Rural Townships*	
																In counties	*In districts*
Per-capita Total Assessment and																	
Per-capita tax revenue	.42	.77	.71	.44	.37	.83	.77	.59	.67	.26	.83	.82	.52	.54	.78	.64	.77
Per-capita total revenue	.31	.59	.28	.33	.30	.74	.16	.20	.53	.15	.69	.31	.09	.29	.58	.18	.56
Percentage rate of business tax assessment	.04	.06	.01	.36	.15	.00	.66	—.00	.04	.40	—.06	.31	.04	.00	.01	.00	.07
Earnings: per wage earner	—	.18	—	.12	.08	.14	.26	—	—	.01	.02	.09	.02	—	—	—	—
per capita	—	.31	—	.12	.11	.22	.07	—	—	.05	.03	.42	.18	—	—	—	—
per household	—	.20	—	.10	.06	.14	.10	—	—	.03	—.05	.10	.04	—	—	—	—
Proportion of business tax assessment to total assessment	.04	.04	.01	.26	.05	.00	.69	.07	.04	.22	.01	.30	.16	.01	.01	.04	.01
Per-capita Revenue and																	
Percentage rate of business tax assessment	.02	.02	.02	.05	.00	.14	.08	.08	.01	.03	—.03	—.00	.14	.02	.02	.02	.01
Earnings: per wage earner	—	.16	—	.31	.04	.08	.44	—	—	.08	—.01	.09	.01	—	—	—	—
per capita	—	.27	—	.26	.06	.12	.51	—	—	.06	.00	.20	.01	—	—	—	—
per household	—	.21	—	.31	.04	.06	.61	—	—	.11	—.12	.23	.02	—	—	—	—
Proportion of business tax assessment to total assessment	.03	.02	.00	.00	.09	—.00	.04	.04	.03	.13	.07	.21	.01	.12	—.00	.00	.00

Appendix C—3

COEFFICIENTS OF DETERMINATION (r^2) FOR CERTAIN CHARACTERISTICS OF ONTARIO MUNICIPALITIES 1962
(r^2 represents the proportion of variation in the dependent variable explained by association with the independent variable. r^2 cannot exceed 1 or —1)

Dependent and Independent Variables Correlated	Classes of Municipalities: All Municipalities	All Urban	All Rural	All Cities excluding Toronto	Towns and Villages over 5,000	Towns and Villages under 5,000	Improvement Districts	Towns, Villages & Townships in Counties	Towns, Villages & Townships in Districts	All Municipalities over 40,000 Population	All Municipalities 40,000-20,000 Population	All Municipalities 20,000-10,000 Population	All Municipalities 10,000-5,000 Population	All Municipalities 5,000 to 2,000 Population	All Municipalities under 2,000 Population	Rural Townships: In counties	Rural Townships: In districts
Total Population and																	
Per-capita business tax assessment	.05	.05	.00	.01	—.00	.03	.00	.06	.03	.05	.02	—.00	.09	.04	.01	.00	.03
Per-capita total assessment	.00	.02	.01	.06	.13	—.00	.00	.02	.00	.06	—.04	.03	.11	.00	.00	.00	—.00
Per-capita tax revenue	.07	.07	.01	.11	.01	.01	.06	.10	.06	.43	—.01	.02	.12	.00	.00	—.00	—.00
Per-capita total revenue	.04	.06	—.00	.29	.01	.01	.43	.02	.03	.39	—.00	—.01	—.00	.00	—.00	—.00	—.02
Percentage rate of business tax assessment	.06	.08	.01	.03	.08	.00	.73	.01	.09	.04	—.05	.31	.05	.01	.01	—.01	.04
Earnings: per wage earner	—	.02	—	.13	.07	.03	.03	—	—	—.01	—.01	.02	—.03	—	—	—	—
per capita	—	.08	—	.24	.12	.10	.01	—	—	.05	—.01	.04	.00	—	—	—	—
per household	—	.02	—	.19	.10	.08	.04	—	—	.06	.01	—.00	—.01	—	—	—	—
Proportion of business tax assessment to total assessment	.03	.01	.01	—.02	—.05	.02	.01	.19	.05	.02	.07	—.01	.07	.05	.00	.02	.08

Appendix D—1

SUMMARY OF QUESTIONNAIRES

Business and Property Taxes as a Percentage of Gross Revenues

Type of Business	*Number*	*Arithmetic means of ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Manufacturers					
Food and beverages	8	2.9	3.6	2.0	0.7
Rubber and rubber products	3	1.2	—	1.2	—
Leather and leather products	3	0.8	—	0.8	—
Textiles	4	1.4	2.4	0.7	0.5
Furniture and fixtures	13	6.4	2.3	1.2	0.6
Paper and allied products	16	1.7	1.9	1.5	1.0
Printing and publishing	8	1.5	1.9	0.9	0.7
Primary metal	4	0.7	1.0	0.7	0.5
Metal fabricating	75	1.1	1.3	0.9	0.7
Machinery	12	1.2	1.2	1.1	0.8
Transportation equipment	8	2.1	2.3	1.6	1.2
Electrical and electronic products	22	1.1	1.3	0.8	0.6
Non-metallic mineral products	7	1.5	1.7	1.0	0.6
Chemical and chemical products	27	1.3	1.3	0.8	0.6
Other	11	—	—	—	—
Total	221	1.6	1.7	1.0	0.7
Wholesalers					
Grocery and combination	4	0.2	0.2	0.2	0.2
Variety	3	1.1	3.0	0.2	0.1
Garage and motor vehicle	6	0.9	1.3	0.6	0.5
Hardware	4	1.7	3.9	0.7	0.3
Plumbing and heating	6	0.9	1.3	0.7	0.5
Electrical supplies and appliances	5	0.7	1.3	0.5	0.3
Auto parts	3	1.2	—	0.9	—
Tobacco	5	2.1	4.3	1.6	0.2
Other	4	—	—	—	—
Total	40	1.1	1.4	0.7	0.2
Retailers					
Grocery and combination	9	2.0	4.3	1.1	0.4
General	4	1.5	2.7	1.3	0.2
Department	3	2.5	—	1.6	—
Men's clothing	3	3.0	—	2.9	—
Hardware	9	4.9	6.5	3.7	2.6
Furniture, appliances, radio, television	6	4.3	8.6	3.3	0.9
Drug	3	3.3	—	2.9	—
Automotive dealers	3	0.3	—	0.3	—
Lumber and building supplies	5	1.2	2.4	0.6	0.4
Other	14	—	—	—	—
Total	59	2.4	3.7	1.5	0.7
Radio and Television Broadcasters	9	6.2	8.8	5.4	3.9
Funeral Directors	46	5.6	7.5	4.8	3.8
Restaurants					
—alcohol and meals	4	7.3	—	7.3	—
—no alcohol	9	5.4	7.3	5.0	3.2
Total	13	5.6	8.1	5.0	3.7
Hotel and Motel					
—no alcohol	16	—	—	—	—
—<50% alcohol revenue	30	9.6	—	8.3	—
—50-75% alcohol revenue	40	5.7	7.3	6.0	3.9
—75-90% alcohol revenue	49	8.0	9.	8.6	5.8
—>90% alcohol revenue	34	9.5	10.8	7.8	5.2
Total	169	8.2	9.3	7.3	5.3

Appendix D—2

SUMMARY OF QUESTIONNAIRES
Business and Property Taxes as a Percentage of Gross Revenues

Type of Business	*Number*	*Arithmetic means of ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Manufacturers					
Food and beverages	7	19.5	11.5	8.6	7.5
Rubber and rubber products	3	12.3	—	12.0	—
Leather and leather products	3	12.5	—	14.0	—
Textiles	5	9.7	13.5	10.2	6.0
Furniture and fixtures	12	65.0	41.8	15.2	4.9
Paper and allied products	16	97.8	21.0	16.7	9.0
Printing and publishing	8	15.7	34.6	28.2	9.9
Primary metal	4	6.7	10.5	5.7	4.0
Metal fabricating	86	5.4	16.7	7.7	3.1
Machinery	14	57.8	45.7	16.5	4.4
Transportation equipment	9	31.6	27.7	8.2	2.8
Electrical and electronic products	22	14.3	29.7	9.6	3.1
Non-metallic mineral products	9	336.1	10.2	5.7	(21.0)
Chemical and chemical products	30	9.9	15.6	8.4	5.4
Other	15	—	—	—	—
Total	243	425.2	227.5	109.4	57.5
Wholesalers					
Grocery and combination	4	47.5	199.7	16.6	(73.8)
Variety	4	20.2	96.2	9.4	(45.1)
Garage and motor vehicle	8	78.1	32.9	11.3	7.6
Hardware	5	26.4	53.6	40.2	(7.7)
Plumbing and heating	8	28.8	58.8	14.9	8.2
Electrical supplies and appliances	5	12.4	20.1	13.9	4.0
Auto parts	3	17.7	—	17.7	—
Tobacco	5	35.3	63.4	24.4	12.8
Other	4	—	—	—	—
Total	46	42.3	38.3	16.2	8.9
Retailers					
Grocery and combination	12	102.9	144.4	15.4	6.1
General	5	16.3	30.5	7.2	4.2
Department	4	0.5	—	32.3	—
Men's clothing	3	30.0	—	9.9	—
Hardware	14	61.1	62.1	24.2	11.2
Furniture, appliances, radio, television	8	153.8	203.3	15.8	6.5
Other home furnishings	3	5.6	—	7.1	—
Drug	3	18.2	—	15.7	—
Automotive dealers	3	30.1	—	13.0	—
Lumber and building supplies	9	109.7	47.0	31.6	(46.3)
Feed	5	7.6	13.6	5.4	2.7
Other	13	—	—	—	—
Total	82	64.5	40.6	13.6	7.0

Appendix D—3

SUMMARY OF QUESTIONNAIRES
Business and Property Taxes as a Percentage of Net Profit/Loss

Type of Business	*Number*	*Arithmetic means of ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Radio and Television Broadcasters	9	1.9	24.2	7.0	(30.9)
Funeral Directors	49	20.4	27.0	14.2	8.9
Restaurants					
—alcohol and meals	4	30.5	—	38.1	—
—no alcohol	12	18.4	32.9	17.0	9.2
Total	16	21.4	35.6	18.2	9.2
Hotel and Motel					
—no alcohol	15	(949.7)	89.4	43.9	12.3
—<50% alcohol revenue	30	106.3	177.4	53.2	10.7
—50-75% alcohol revenue	42	170.6	125.7	33.8	9.5
—75-90% alcohol revenue	49	105.4	76.5	28.1	11.2
—>90% alcohol revenue	30	(13.5)	69.6	29.8	7.0
Total	167	5.3	97.3	34.2	10.7

Appendix D—4

SUMMARY OF QUESTIONNAIRES

Business and Property Taxes as a Percentage of Corporation Income Tax

Type of Business	*Number*	*Arithmetic means of Ratios*	*1st Quartile of Ratios*	*Median*	*3rd Quartile of Ratios*
Manufacturers					
Food and beverages	8	321.1	658.8	87.3	56.6
Rubber and rubber products	3	132.8	—	135.0	—
Leather and leather products	3	121.7	—	110.5	—
Textiles	5	370.8	828.8	80.2	58.2
Furniture and fixtures	8	847.5	346.7	146.6	76.2
Paper and allied products	16	1,071.1	227.5	174.1	84.2
Printing and publishing	7	282.6	368.5	293.1	138.1
Primary metal	4	54.1	91.1	39.9	31.4
Metal fabricating	81	208.6	213.3	108.3	46.3
Machinery	13	374.0	493.6	131.9	57.5
Transportation equipment	8	125.7	193.5	62.5	40.2
Electrical and electronic products	20	308.3	286.8	124.3	58.0
Non-metallic mineral products	8	3,580.8	126.3	57.8	47.1
Chemical and chemical products	29	143.4	179.2	92.3	63.5
Other	10	—	—	—	—
Total	223	425.2	227.5	109.4	57.5
Wholesalers					
Garage and motor vehicle	6	146.1	220.9	106.3	64.9
Hardware	4	269.5	453.6	202.7	152.1
Plumbing and heating	8	253.6	534.2	123.3	55.4
Electrical supplies and appliances	5	107.4	182.1	99.8	36.6
Auto parts	3	161.0	—	160.7	—
Tobacco	4	340.8	745.8	98.5	79.6
Other	7	—	—	—	—
Total	37	683.7	223.4	160.7	78.3
Retailers					
Department	3	366.6	—	315.9	—
Hardware	5	682.3	1,184.6	603.9	219.3
Furniture, appliances, radio, television	5	1,689.9	3,213.1	1,785.5	118.9
Lumber and building supplies	5	221.1	423.7	115.5	11.5
Other	14	—	—	—	—
Total	32	1,163.6	998.9	299.5	101.6
Radio and Television Broadcasters	8	109.0	160.9	97.8	48.5
Funeral Directors	21	219.8	360.1	140.9	79.5
Restaurants					
—no alcohol	5	93.2	—	93.0	—
Total	6	124.3	197.4	112.3	57.3
Hotel and Motel					
—no alcohol	3	2,107.7	—	1,586.2	—
—<50% alcohol revenue	13	3,929.6	3,674.0	1,516.1	844.6
—50-75% alcohol revenue	11	4,680.4	1,901.8	773.1	307.0
—75-90% alcohol revenue	8	866.3	1,100.7	517.8	349.3
—>90% alcohol revenue	6	534.8	1,206.4	214.8	148.0
Total	41	2,896.7	1,979.7	953.9	312.5

Appendix D—5

SUMMARY OF QUESTIONNAIRES
Business and Property Taxes as a Percentage of Gross Revenues

Type of Business	Average of Totals for Groups		
	Largest	Middle-sized	Smallest
Manufacturers			
Paper and allied products	1.3	1.1	2.4
Metal fabricating	1.1	0.9	1.1
Electrical and electronic products	1.2	1.0	0.9
Chemicals and chemical products	1.7	0.5	2.2
Funeral Directors	2.3	2.7	2.9
Hotel and Motel—no alcohol	2.8	3.2	8.6
—50% alcohol revenue	7.1	4.8	2.9
—<50-75% alcohol revenue	2.9	3.8	4.7
—75-90% alcohol revenue	2.5	2.8	2.9
—>90% alcohol revenue	2.4	2.9	3.2

Appendix D—6

SUMMARY OF QUESTIONNAIRES
Business and Property Taxes as a Percentage of Net Profit/Loss

Type of Business	Average of Totals for Groups		
	Largest	Middle-sized	Smallest
Manufacturers			
Paper and allied products	7.7	15.7	34.9
Metal fabricating	11.3	13.6	22.1
Electrical and electronic products	24.4	6.7	25.0
Chemicals and chemical products	9.9	12.9	14.4
Funeral Directors	11.8	19.9	16.3
Hotel and Motel—no alcohol	68.5	50.3	47.5
—<50% alcohol revenue	114.2	116.3	43.9
—50-75% alcohol revenue	66.3	161.6	(85.5)
—75-90% alcohol revenue	505.6	46.1	35.2
—>90% alcohol revenue	29.1	106.2	58.3

Appendix D—7

SUMMARY OF QUESTIONNAIRES
Business and Property Taxes as a Percentage of Corporation Income Tax

Type of Business	Average of Totals for Groups		
	Largest	*Middle-sized*	*Smallest*
Manufacturers			
Paper and allied products	59.3	140.3	294.0
Metal fabricating	107.3	125.8	196.5
Electrical and electronic products	155.6	65.0	261.4
Chemicals and chemical products	94.3	59.4	129.1
Funeral Directors	110.1	258.4	482.0